



OFFICIAL REPORT
AITHISG OIFIGEIL

Environment, Climate Change and Land Reform Committee

Tuesday 6 September 2016

Session 5



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ENVIRONMENT, CLIMATE CHANGE AND LAND REFORM COMMITTEE
3rd Meeting 2016, Session 5

CONVENER

*Graeme Dey (Angus South) (SNP)

DEPUTY CONVENER

*Maurice Golden (West Scotland) (Con)

COMMITTEE MEMBERS

*Claudia Beamish (South Scotland) (Lab)
*Alexander Burnett (Aberdeenshire West) (Con)
*Finlay Carson (Galloway and West Dumfries) (Con)
*Kate Forbes (Skye, Lochaber and Badenoch) (SNP)
*Emma Harper (South Scotland) (SNP)
*Angus MacDonald (Falkirk East) (SNP)
Gail Ross (Caithness, Sutherland and Ross) (SNP)
*Mark Ruskell (Mid Scotland and Fife) (Green)
*David Stewart (Highlands and Islands) (Lab)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Gareth Baird (Crown Estate)
David Mallon (Scottish Government)
Ronnie Quinn (Crown Estate)
Linda Rosborough (Scottish Government)
Andrew Wells (Crown Estate)

CLERK TO THE COMMITTEE

Lynn Tullis

LOCATION

The Robert Burns Room (CR1)

Scottish Parliament

Environment, Climate Change and Land Reform Committee

Tuesday 6 September 2016

[The Convener opened the meeting at 10:00]

Decision on Taking Business in Private

The Convener (Graeme Dey): Good morning, and welcome to the third meeting in 2016 of the Environment, Climate Change and Land Reform Committee.

Before we move to the first agenda item, I remind everyone present to switch off mobile phones, because they may affect the broadcasting system. However, you may notice during the meeting that some committee members are using tablets. That is because we provide meeting papers digitally and, as this committee deals with the environment, we want to encourage that sort of practice.

We have received apologies from Gail Ross.

Agenda item 1 is to decide whether to take business in private. Does the committee agree to take item 4 in private?

Members indicated agreement.

Draft Third Report on Proposals and Policies

10:00

The Convener: Agenda item 2 is on the committee's approach to the forthcoming third report on proposals and policies. We understand that the Government plans to lay that report in late December, but an unintended consequence of that timing will be, potentially, that two weeks of parliamentary scrutiny would be lost due to the Christmas and new year recess period. I am sure that members will be as keen as stakeholders and other interested parties are to have the maximum opportunity to consider that very important draft report. We would like to have the fullest possible parliamentary scrutiny across a number of relevant committees.

Is the committee therefore content for me, as convener, to write to the cabinet secretary to ask whether the Scottish Government might consider delaying the publication of RPP3 until Monday 9 January 2017?

Members indicated agreement.

The Convener: Obviously, a fuller discussion of the committee's approach to scrutiny of RPP3 will follow later this month.

Crown Estate

10:01

The Convener: Agenda item 3 is an evidence session with representatives of the Crown Estate in Scotland. I welcome the panel: Gareth Baird is the Scottish commissioner, Ronnie Quinn is general manager of the Scotland portfolio at the Crown Estate and Andrew Wells is the recently appointed head of property for the Crown Estate. I particularly welcome Mr Wells, who is, I think, at committee for the first time in that role.

We have a number of questions for you, as you can imagine. We will start by having a general look at the operations of the Crown Estate.

Emma Harper (South Scotland) (SNP): Welcome, everybody.

I am curious as to whether any underlying reasons have been identified for the drop in revenue in Scotland, as shown in the 2015-16 report.

Ronnie Quinn (Crown Estate): You are right that there is a marginal drop in revenue. It is just a timing thing; I do not think that anything systemic is attached to it.

Emma Harper: Can you give us further information on previous years?

Ronnie Quinn: Yes. I think that we had a particularly high year, last year. The reports have all been available with a gross revenue number associated with them. We can certainly go back five or so years and provide the committee with those revenue number but, to be honest, the number is there or thereabouts. A lot depends on, for example, the number of fish that are harvested and the rental income that we receive from certain seasonal activities. Sometimes there are good seasons and sometimes there are bad seasons.

The Convener: Are you saying that, in a general sense, the direction is positive?

Ronnie Quinn: Yes. I assure the committee that there is no question of the Crown Estate denuding the Scottish portfolio of capital or revenue. There is no underlying plan; it is very much business as usual.

Finlay Carson (Galloway and West Dumfries) (Con): I have a general question about remit. When the Crown Estate is devolved, what will be its on-going ideology with regard to future plans? Will it just be a money-making vehicle? What do you see as being your social and rural responsibilities, going forward?

Ronnie Quinn: First, I do not think that the Crown Estate in Scotland has taken that view for

some time now. That said, we have taken a lead from statements that were made by the former Cabinet Secretary for Rural Affairs, Food and Environment that transfer of assets is an on-going concern. We are preparing plans to that effect in order to continue our engagement with and input to local communities, and to continue to balance capital and revenue focus. Ultimately, however, it will be for the new board of the new entity to establish its direction, under the Scottish ministers' guidance.

Gareth Baird (Crown Estate): The management of assets by the Crown Estate has for a long time now been directed very much at the long term, and we are at all times trying to enhance the assets with a view to commercialism: they have to be profitable to the public purse. The stewardship element, with regard to not taking short cuts in management of the assets, is very important. As Ronnie Quinn correctly pointed out, it will be for the new board—and for Scottish ministers and the direction that they give—to consider how we will go forward, but I imagine that we will go forward on the same basis. After all, the long-term view is very important—in particular, with regard to the businesses of our tenants and stakeholders and, of course, to communities.

Claudia Beamish (South Scotland) (Lab): Good morning. It is reassuring to hear the thoughts about the long term that you have expressed this morning. In an evidence session in the previous session's Rural Affairs, Climate Change and Environment Committee, I and other members asked about the development of a new mission statement either by the interim body, or once the Crown Estate is as fully devolved as it can be. Building on Finlay Carson's question, can you identify that process and whether there is a possibility that environmental stewardship and sustainable development will be considered as part of your mission in order to give a robust and clear statement.

Gareth Baird: Before I hand over to Andy Wells, I want to talk about our overarching vision at the moment. Clearly, it is not for us to determine a forward strategy, but we are very sure in our own minds about the importance of the long-term view. Many of our rural tenants, for instance, have multigenerational businesses, so we absolutely have to pay due regard to the long term for them. Our stakeholders in the marine estate are no different.

Many of our activities and the initiatives that we take and help to deliver now will have huge long-term implications for the environment and productivity of assets. All that I can do is reassure the committee with regard to our thinking at the moment. I sincerely hope that, for those assets,

things will—unless we are directed in a different way in the future—move along in the same vein.

Andy, can you say something?

The Convener: Before Andy Wells comes in, I want to pick up on that response. I hear your point that it is not for you to determine any future strategy, but given that all of you have very detailed knowledge of the previous workings of the Crown Estate, you surely must have some thoughts about how it can work more effectively under the Scottish Parliament's control. I am not trying to put you on the spot here—I am just sure that you have such thoughts. In that case, what might you do differently if you were to be freed from operating under the United Kingdom Crown Estate model? What could a new approach bring to the operations of the Crown Estate in this new world into which we are headed?

Ronnie Quinn: I will start to address that, but it is not a straightforward question. As members are aware, there is the caveat that the approach will have to be informed by Scottish ministers, the new board and, indeed, the committee. However, areas of interest include our doing more active trading, the possibility of accessing funds by way of joint ventures or co-investment, and looking at alternative markets and opportunities for management of assets—all within the bounds of the Crown Estate Act 1961, with which the new entity will still have to comply.

Ideally, capital reserves will be built up to optimise the timing of further investment decisions. We could also look at ways to incentivise and encourage new entrants into farming and rural estates, and at how to support future growth in aquaculture, consistent with the Scottish Government's policy. That sits alongside some of our ambitions for offshore renewable energy.

We are ambitious about the opportunities.

The Convener: As we go through this process, are you being afforded an opportunity to feed those thoughts in?

Ronnie Quinn: Again, we have to be mindful of the fact that there is a lot of attention on the transfer of assets. Internally, we are looking at how we can inform the debate—in particular, with the new board. It would not be a good idea to present a blank sheet of paper to the new board, so we are looking at the various options that we can present to it to consider.

The Convener: Okay. That is useful.

Andrew Wells (Crown Estate): I will, if I may convener, add a little bit in relation to the broader-functions potential for the new body. There is a huge opportunity to look at how the Crown Estate can build on its values and combine its commercial remit with broader stewardship and

sustainable objectives in Scotland. We can become more collaborative, with a broader partnership approach. Working with a wide range of stakeholders and communities could be brought into the new organisation's DNA, so that we can work harder to achieve the balance between commercial objectives and adding value in lots of other ways.

Ronnie Quinn: Balancing the needs of our existing tenants and customers, and keeping a steady ship over the period are issues. To go back to the previous statement on business as usual and on-going concerns, I am very keen to keep focus on those matters, too.

The Convener: Okay. It is appropriate to move on to look at the transition in management arrangements.

Alexander Burnett (Aberdeenshire West) (Con): Good morning. I will repeat this to the next panel. What value is being transferred to Scotland? What due diligence is behind the property value that is mentioned in the annual report? To what level is due diligence done? In the rural sector, there are various valuation methods, including statutory or red book valuations and more cursory looks around a farm. What work have you done on valuation? In particular, what changes have you seen in valuation, especially in valuations of tenanted properties? You have talked about the long-term viability of such enterprises; what figures do you have on the improvements that have been requested to improve their income and profitability?

Ronnie Quinn: I will take the first part of that and then hand over to Andy Wells to deal with the specifics. As far as the valuation is concerned, it is a red book valuation, which is done independently, assessed and is part of the Crown Estate audited report. The information is an extract of that report, if you like. Let us take the offshore world as an example; if there is no activity on the sea bed, it is not valued.

The valuers have a policy of quite heavy discounting for projects that have not reached a final investment decision. Once a project reaches financial close, the valuation goes up, and it goes up again once something is built. However, until then, quite a low value—an opportunity value—is attributed.

As members would expect, we use different valuers for different areas, so rural valuation is done differently from valuation of cables and pipelines, which is done differently from renewables valuation.

10:15

Valuation is done by the red book and is independent. We have only advisory input in saying what stage things are at and what the estate is. Valuations are normally done late in the year or in the first quarter of the year.

Andy Wells will speak about investments.

Andrew Wells: As Ronnie Quinn said, rural valuation is done according to the red book, by external professional valuers. When we make decisions about investments in particular properties, we take a view about what the impact on valuations would be. Our responsibilities include enhancement of capital value in the longer term, so we make decisions on that basis.

The Convener: I call Mark Ruskell now, with my apologies—I should have allowed him in earlier.

Mark Ruskell (Mid Scotland and Fife) (Green): The witnesses have talked about where they want to take the organisation and growth. What structures and changes in practice will be required to achieve that? We just heard a question about valuation: I am aware that the new interim body will have an audit committee to govern financial risks. What changes to the organisation's management will you have to put in place and how will you work with the new structures?

Ronnie Quinn: The Crown Estate has been active in setting up the Scotland portfolio as a stand-alone accounting business unit, and we have operated on that basis since 1 April. We have recruited a new management team—we have brought in Lynne Higgins as finance manager and Esther Black as head of communications. We have re-formed the management team and brought in human resources. I have every confidence that the management team is structured to perform the tasks that we do now and that it will be able to flip across to the new entity and take it forward. We have identified a couple of additional support areas for the new entity and we have identified new posts. We have advised our Scottish Government colleagues of those areas, which include company secretariat, freedom of information and knowledge management duties.

For the day-to-day business, we have taken steps to form the team and make it as self-sufficient as we can, at this stage. We are putting a lot of effort and money into creating our own information technology environment, which it is intended will be up and running by the end of this calendar year.

We are targeting the transfer date of 1 April 2017 as day 1 of the new entity. On the Crown Estate side, we have every confidence that we will

get there and have the environment ready to flip across.

Mark Ruskell: How much support will you require to service the new governance structure? You will have an audit committee and a board. Board papers will need to be produced, things will need to be considered, audit committee meetings will need to be reported on and scrutiny will have to take place. That is different from where you are now. How many extra people will you need to bring in to service the new governance structure for the interim body?

Ronnie Quinn: It is fair to say that we service committees at present. However, we have identified a new role of corporate secretary to help to service and administer the committees and the board. We have identified a need for at least one and a half, if not two, full-time equivalents.

Gareth Baird: Over the past few years, the Scottish operation's autonomy has increased in one form or another. Our Scottish management board is well equipped to take forward the new arrangements. It will absolutely be for the new board and Scottish ministers to determine our route forward, but we have increased our communication with our stakeholders over the past few years, to everyone's benefit. We were made aware that there were deficiencies in that area, so we worked very hard and are seeing the benefit of that. There is a real appetite among the senior management team at Bell's Brae for more collaboration with stakeholders, and we have seen examples of that over the past year or so.

For example, our Glenlivet rural tenants had an issue with cryptosporidium, which was actually nothing to do with our tenants' livestock but was coming out of deer. However, the Moredun Research Institute went up to discover the root of the infection. While that was going on, it became clear that there was a very strong appetite among scientists and farmers to discover more about it. That has, over the course of about 18 months, led to knowledge transfer seminars and farm visits. Our farm tenants and the Moredun scientists have engaged fully in that work, which culminated in the issuing of a biosecurity device—through a joint venture between Moredun and the Crown Estate—to all Scottish livestock farmers this year. I happen to be a livestock farmer, and I believe that the advice and technical expertise that has come forward on the issue could well provide a quantum leap in red-meat production in Scotland. It is something that we have been looking for for a long time. That is an example of how, without enormous investment and just with collaboration—

Mark Ruskell: That is a lot of work, is it not?

Gareth Baird: It is a lot of work.

Mark Ruskell: Do you outsource some of that work?

Andrew Wells: The project was developed through our broader stewardship and partnership working. We have a relationship with Moredun whereby our tenants can by phone access up-to-date information from Moredun scientists as part of corporate membership. The project was delivered by Moredun scientists and we helped to fund it. The work has brought together a huge amount of up-to-date information about biosecurity and the key livestock diseases in Scotland. Crucially, it was presented in a format that was easily digestible by farmers. We hope that it will make a significant difference to management of on-farm biosecurity in Scotland.

The Convener: That is an example of good practice in dealing with external providers. However, as I understand it, you also operate a system whereby you have land agents factoring your rural estates. Will you outline for us how well you think that works and how much money the Crown Estate in Scotland might spend every year on external provision of that nature?

Andrew Wells: For most purposes, the system works very well and smoothly. By employing external firms and managing agents, we buy into a huge amount of expertise from people who work broadly in the rural sector, which we can then apply. Clearly, a wide range of different management activities are involved and our managing agents act on our behalf in a lot of different circumstances, including negotiating rent reviews with tenants, liaising with local communities and managing repairs and maintenance on farms. Our agents have a lot of detailed and local knowledge, work with a lot of contractors and can make efficiency savings in organising that work, so having access to that service is of benefit to the organisation.

I am afraid that I cannot give the committee a figure just now for the cost of that across the board, but I can provide it later. Obviously, we review the system from time to time and we work constantly with our managing agents on ways to reduce costs, as we would on anything as part of good business activity.

Ronnie Quinn: It is also fair to say that the cost of providing some of the services in house could be prohibitive. We call on some of the specialist services very rarely, and to have them in house would probably be an inefficient way in which to run the business.

Gareth Baird: I am a tenant farmer and, as everybody will know, the relationship between agent and tenant can often be rather fraught. I assure the committee that I keep a close watch on how our agents engage with our stakeholders,

because that really is important. A good relationship will produce a lot of dividends for both parties, whereas a bad relationship can get toxic very quickly. I am delighted to say that our team issues strict methods of engagement with our tenants and I genuinely think that those are applied.

Andrew Wells: The Crown Estate team in Bell's Brae are a very experienced team with a lot of expertise, and they have worked with managing agents for many years. They also spend time with our tenants out on the estate but not with managing agents, so that they get our tenants' perspective on how the managing agents are working.

The Convener: Mr Wells, you mentioned contractors. We hear anecdotally about small-scale local contractors choosing not to seek Crown Estate work because they believe that the process around that is complicated and time consuming. Do you accept that your process perhaps puts off the small local guy from tendering for work?

Andrew Wells: We have sometimes had issues because of our financial systems and the requirement for contractors to meet the conditions that we set, which some smaller contractors find difficult. We try to help them whenever we can and we try to use local contractors whenever possible.

The Convener: Is there an opportunity to look at that again as you transfer over to Scotland?

Andrew Wells: There is always an opportunity to review how we do things. Going forward, we will be a smaller business. The financial systems that we have in place currently are designed for a large UK business. Our new systems will potentially be more straightforward and will, I hope, enable us to operate more efficiently in that sense.

Claudia Beamish: On tenant farmers, we had an interesting day recently when we were welcomed to the Applegirth estate in Dumfries and Galloway. Do you have any concerns about investment, particularly capital investment, in tenanted farms in the interim period or the period leading up to the change? Could we see some figures on that, if possible?

Andrew Wells: Yes. I reassure our tenants that it is our clear ambition to operate business as usual as much as we can as we move through the transition process. There are some challenges around that. As we know, when we start the new body, we will be looking at the business from a Scotland perspective only, which has implications for cash flow. That cash-flow issue is one that we need to plan for and work through.

On our overall capital investment, since 2010 we have invested £12.3 million in the rural estates,

which is on average roughly £2.2 million every year. The figure fluctuates from year to year, depending on investment requirements across the portfolio. Some years, it is about £1.1 million and other years it has been up to £3 million plus. That fluctuation is purely a result of certain circumstances, such as weather-related capital requirements for investment in buildings and the pipeline of development that is in progress. We have budgeted about £2.2 million of investment for this financial year and we are expecting a similar figure for next year. We have not yet developed the full cash-flow position, but we are working on that.

We also have a pipeline of sales, which is an on-going part of our activity. Sales are part of the general management of the Crown estate in the UK and in Scotland so that we can raise capital for reinvestment in the property. We have identified a number of sales as part of our normal business planning and, subject to market conditions and that programme being put through in practice, we are confident that we can cover our capital requirements in the first year of operation.

When we first transfer, there may be initial problems with cash flow, but we are working closely with the Scottish Government on how we handle that.

10:30

Claudia Beamish: Thank you. If you are not able to give us details today, it would be helpful if you could reassure the committee by writing to us about any requests for joint capital investment with rural tenants in the past two years and going into the future, with the interim body, and whether those have been taken forward and on what basis.

Andrew Wells: I am certainly happy to do that.

Claudia Beamish: Thank you.

The Convener: That is an important point and you could also give us an understanding of how you monitor your performance in responding to tenants' requests for improvements. When you talked about investment in rural estates, were you talking not just about the farms but about things like the mountain bike trails that you have built at Glenlivet and that sort of thing? You have invested very effectively there, but we are trying to get to how the Crown Estate interacts with its tenants when it gets perfectly reasonable requests for repairs. How do you judge if and when to carry them out? To put it bluntly, is there a backlog that will have to be cleared under the new regime?

Andrew Wells: We have a rolling programme of repairs and maintenance that is identified each year by our managing agent teams, who have a detailed knowledge of the properties and their

requirements and liaise with tenants on repair and maintenance. That figure has been continuing at roughly the same level for the past few years and we are budgeting a similar level for next year.

There is always a requirement for repairs and maintenance, so it is a matter of identifying the requirements for each holding and our financial position, and managing those accordingly.

Ronnie Quinn: The criteria that we normally consider for repairs are the age of the structure, its use, whether it is used seasonally, whether it is central to the functioning of the whole unit, any health and safety considerations and whether a like-for-like repair is the best solution. In some instances, a repair request prompts us to reconsider the whole unit and work with the tenant on a wider investment or a restructure of the unit. We have a number of criteria to take into account. If we were to respond to absolutely every request that came in, it would put a substantial burden on the Crown Estate.

Andrew Wells: To put a figure on it, around £390,000 per annum goes on repair and maintenance across the rural portfolio. It is also worth adding that a lot of our recent work has been in relation to asbestos, electrical wiring inspections and meeting new standards.

The Convener: A number of members want to come in with brief supplementaries.

Finlay Carson: My question comes on the back of what Claudia Beamish said earlier about the mission statement. What pressure are you under to make the right sort of sales? Looking at the business going forward, I see that you will have quite an urgent need to generate income to keep the business going during the transition period. What pressures are on you to pre-empt the mission statement and influence your sales in the short term?

Ronnie Quinn: I will just clarify and make a distinction between capital and revenue. There are no concerns about revenue. The revenue position will be very straightforward early on. I do not foresee any reason for a revenue issue and, of course, there are revenue considerations in the maintenance of properties. That will not be an issue.

We do foresee, and are having active discussions with Scottish Government colleagues about, concerns about the capital position. There are questions about where we get the liquid capital to invest, and that will be subject to an on-going programme. As far as we can possibly make it so, it will be business as usual. As part of normal business, we will identify where we can take opportunities and optimise those.

Mark Ruskell: Gareth Baird said that he had an intuitive understanding of the relationship with tenants as he is a tenant himself. To what extent does the Crown Estate systematically benchmark against other public bodies? If I were a tenant of the Forestry Commission, would I be able to expect the same level of service or the same response to questions or requests for investment as I would from the Crown Estate? Where is the good practice here?

Ronnie Quinn: I will give some concrete numbers, although they are not directly for the rural estate. From time to time, we carry out surveys of tenants. In a recent survey of coastal tenants, in 2014, 70 per cent of customers rated the Crown Estate as good or excellent in terms of overall customer satisfaction. For energy, in 2015-16, 69 per cent of respondents said that customer service was good or excellent. We will conduct further UK-wide studies this year.

Mark Ruskell: Will those simply be about your relationship with your tenants, or will you consider benchmarking within the wider public sector? Would you have a benchmarking operation with the Forestry Commission to consider your practices and their practices in order to see which is delivering greater tenant satisfaction, with the result that you could perhaps borrow from each other?

Ronnie Quinn: It is fair to say that we do not have a direct dialogue with the Forestry Commission.

Mark Ruskell: So do you not do benchmarking in relation to other public sector organisations?

Ronnie Quinn: Not on that issue. We do benchmarking exercises in respect of financial return, and the Crown Estate performs very well in that regard—we normally exceed the investment property databank benchmark.

Kate Forbes (Skye, Lochaber and Badenoch) (SNP): I want to continue on the theme of tenancies. What is the process when a tenancy becomes available? Are you doing much to encourage new entrants to take up tenancies?

Andrew Wells: The process depends on the nature of the unit that is becoming available—its size, its scale, the fertility of the holding and so on. We would take into account a wide range of factors, including the business requirements of neighbouring tenants and what those existing tenants might be seeking if an opportunity arose, and whether the unit is suitable for reletting on the open market or is more suitable for being relet to existing Crown Estate tenants. Depending on the outcome of that decision, we would consider whether there was an opportunity for the unit to be a starter unit; if not, we would look at making a different decision. Recently, we relet Den farm on

the Fochabers estate, which provided an opportunity for a young farmer to get up the farming ladder. As I said, the process depends on the individual circumstances of the unit.

Gareth Baird: As you will understand, the issue that you raise—in particular, the younger generation getting into farming—is close to my heart, so I would like to add to what Andy Wells has said.

First, we have been rigorous in considering the business plans of applicants for tenancies. I know all too well that people in my industry sometimes push the boat out in a way that is perhaps to their detriment.

Secondly, as members will be aware, the average age of farmers in Scotland is climbing horribly. There is an issue about allowing tenants, and farmers in general, to exit the industry with capital and pride. Sometimes, when farming businesses hit hard times, we can help in that regard. That can get the older generations of the family out of the business and allow the younger ones to come in.

Finally, as Andy Wells said, we consider the viability of units that come up for tenancy and determine whether they are big enough or fertile enough. We can use that opportunity to recalibrate units when that is necessary.

The process involves that sort of business perspective. It is designed not to grab heaps of rent all the time but to ensure that farming is on-going for the future.

Maurice Golden (West Scotland) (Con): I recognise that the financials are important and the committee's questioning has been along those lines but, from a Scottish point of view, we must recognise that there are aspects beyond the balance sheet, particularly around natural capital. How is that currently being integrated into rural estates and forestry in particular? Might there be opportunities going forward to further integrate that into your strategies?

Andrew Wells: The Crown Estate is currently one of the industry leaders in how it measures its added value through our total contribution reporting and integrated reporting. We are about to launch a second version of our total contribution report later this year. That report looks at value creation beyond the purely financial returns that the business generates as a whole in a range of sectors, one of which includes natural resources.

Going forward, there is certainly an opportunity in the new business for us to look at how we can help to capture and understand the value that we as a land business generate and how we, working with our partners and stakeholders, can help our

tenants to understand their impact on the natural resource base.

We are currently working up a project with Scottish Land & Estates, Scottish Natural Heritage, the Scottish Wildlife Trust and other potential partners to look at the new natural capital protocol, which was launched in July. It is a global protocol that aims to help businesses to understand their dependencies on natural capital, with a process that they can use to help to measure and capture the value that they create and their impact. The project is in the scoping stage now and we hope that we can continue to develop that work and help to develop that process in Scotland so that, using the natural capital protocol, land-based businesses can be provided with a set of tools to understand the dependencies and the value that they create.

Maurice Golden: Would you consider the further integration of that into rental agreements? One of the advantages that you have, as the overseeing body with a number of tenants, is that you can build in holistic benefits for the wider environment, because you have a relationship with a number of tenants. Do you see your role as being about informal communications or could there be something more formalised in your relationships with tenants? Only the bigger landowners such as the Crown Estate can integrate that approach.

Andrew Wells: It is perhaps a bit early to say how we could make material changes to tenancy arrangements in that respect. However, as a large landowner, we have the capacity to work with our tenants to develop the processes and to help them to understand them, and that is something that we would hope to do in the new entity.

The Convener: Concerns have been expressed by, for example, your farm tenants about what the future model will be and how it will impact on them. To what extent are you taking on board those concerns and articulating them in your discussions with the Government about the way forward? Are you raising the concerns that have been brought to you?

Ronnie Quinn: We recognise that any future model is a matter for Scottish ministers. We know that our tenants' stakeholder groups attend the cabinet secretary's stakeholder advisory group and so on, and we are aware that they are making representations directly through that group.

The Convener: It is being done through those means.

Ronnie Quinn: Primarily, yes. We are cutting out the middleman and the stakeholders are responding directly.

10:45

David Stewart (Highlands and Islands) (Lab): I want to move on to coastal issues. What lessons can we learn from the foreshore sale to the Carloway Estate Trust?

Andrew Wells: We can learn that it was a positive move. We respond positively to requests from communities for acquisition of the foreshore and the buyout of the Carloway estate was a very positive opportunity for that. We have not had too many other requests, but we are very happy to look at them when they come forward.

More generally, we work closely with a lot of coastal communities through local management agreements, of which there are eight. Those agreements create an opportunity for communities to come forward with proposals for the management of the foreshore and the coastal environment, and they have been very successful.

We also work closely with coastal communities through our four marine officers around Scotland, who work for Bidwells, one of our land agent companies. They have been proactive at assisting with the development of mooring associations to help communities to manage moorings in their area, and that has also been successful.

David Stewart: I think that the Carloway Estate Trust was the first community land organisation to acquire foreshore. Would you do anything differently in the future?

Andrew Wells: Again, that would very much be a matter for general policy in the new body. It would be a continuing matter for policy to look at how communities can acquire foreshore if there is a demand for that.

David Stewart: I received a letter earlier today from the three island authorities, Western Isles, Orkney and Shetland, which are very interested, as you know, in the control of the sea bed and the foreshore. Will the islands legislation need to be passed before they can acquire the foreshore?

Andrew Wells: Not necessarily, if there is a demand to do that. We have to take a strategic look at foreshore sales to see how they impact on other activities. However, there should not be any barrier to acquisition if there is a demand.

Ronnie Quinn: It is also fair to say, however, that we are still bound by the terms of the 1961 act and we are required to obtain best value. That is our legal responsibility and it is a requirement that cannot be negotiated.

David Stewart: Presumably that test was met in the case of the Carloway Estate Trust.

Ronnie Quinn: Indeed.

David Stewart: Mr Wells talked in another context earlier about a pipeline of sales. Is the same true for the foreshore?

Andrew Wells: No, because there has not been a demand for that from communities.

David Stewart: My final point is that, as well as the island authorities—which I strongly support, incidentally—local authorities such as Argyll and Bute Council and Highland Council would also be interested in the foreshore. If they made applications to you, would you consider them?

Andrew Wells: Indeed.

Angus MacDonald (Falkirk East) (SNP): While we are on coastal issues and the islands, you may have heard “Good Morning Scotland” this morning when Councillor Gordon Murray from Western Isles Council discussed his petition that calls for an emergency towing vessel to be stationed on the west coast of Scotland. The protection of the Crown Estate’s assets should be paramount and, as we heard yesterday, the Maritime and Coastguard Agency unfortunately refused to reinstate the emergency towing vessel for the west coast. Could the Crown Estate consider that issue in the future—perhaps paying a share of the cost of an emergency towing vessel on the west coast—or should it be left to local authorities when Crown Estate assets are devolved?

Ronnie Quinn: The revenue coming from Crown Estate assets will go in its entirety to the Scottish ministers. If they want to use the revenue for that purpose, they will be able to do so.

The Convener: I am conscious that we still have some coastal issues to cover.

Kate Forbes: How are you managing your coastal stakeholders—the ports, the harbours and the marinas—during transition, and how do you envisage developing those assets in terms of, first, conservation and, secondly, marine tourism?

Andrew Wells: On the first part of your question, we are managing that in line with our business-as-usual contact with our key stakeholders through our managing agents and our internal team. We are maintaining regular relations with stakeholders and are working with them. We will continue to put more effort into that business-as-usual process in the intervening period up to devolution to ensure that, as with our farm tenants, those people are kept informed of progress.

As for the future development of marine assets, there are clearly opportunities in relation to marine tourism, and the Crown Estate has been very active in its support for the marine tourism survey, which we part funded, and in working with the Scottish Government on developing the marine tourism development strategy. That work will

continue but, again, it will be for the new body to look strategically at how we take that whole agenda forward.

Ronnie Quinn: We have engaged in a fairly formal way to keep tenants advised of the transitional process. We wrote to them in, I think, December, then in the spring and more recently in July to advise them of the transitional process, and we propose to keep that engagement going. In addition to writing formally to tenants, we have entrusted all members of staff, all managing agents and indeed the coastal officers with the task of keeping tenants advised whenever they meet them, which happens quite frequently.

Andrew Wells: I should also point out that marine officers are members of their local communities and work very actively within them. All the officers around the coastline carry out two to three visits a week; as mariners, they are hugely experienced in coastal issues, and they have been an immensely valuable resource in our being able to continue that engagement at that level.

Claudia Beamish: Do you see any role for the interim body in using revenue to support taking forward effective marine planning under the new national marine plan and the pilot regional plans? Would it be appropriate for you to consider using Crown Estate revenue to support the national marine plan and those objectives?

Ronnie Quinn: As I have said, the revenue from the new entity will be hypothecated to Holyrood and the consolidated fund, and it will be for Parliament to decide how it will move forward. However, I can say that we are continuing to work with Marine Scotland colleagues on several joint projects, particularly in renewables. For example, there is an offshore renewables joint industry programme for offshore wind and an equally snappily titled programme for ocean energy, and we have collaborated with Marine Scotland, the industry and other UK Government agencies to put funding into such projects and programmes. In addition, we have been happy to support Marine Scotland with access to and use of our marine planning tool to assist that work.

Claudia Beamish: Thank you.

The Convener: Finlay Carson has some questions about forestry.

Finlay Carson: What relationship does the Crown Estate have with Forestry Commission Scotland? What has the forestry business plan looked like over the past few years with regard to growing that business and employment, and can a case be made for transferring the forestry side of the Crown Estate to the likes of the commission?

Andrew Wells: To help you with a little background, forestry in our Scottish portfolio extends to around 5,000 hectares across the four rural estates. Most of that—just over 3,500 hectares—is at Glenlivet, and the rest of the forestry estate is fairly fragmented, with 600 or so hectares at Applegirth and other bits and pieces at Whitehill and Fochabers. Outside Glenlivet and Applegirth, the estate woodlands tend to be fairly fragmented. A lot of them serve as shelter belts for surrounding agricultural land and are very integrated into the agricultural estate.

Glenlivet, along with Applegirth, is at the core of our commercial forestry in Scotland. We work closely with Forestry Commission Scotland in developing long-term 20-year forest plans for the management of all our holdings. That management is focused on integrating multiple-use management ambitions and on the long-term restructuring of the woodland resource. We have an on-going programme of thinning and felling across those areas, and we work closely with the commission on the management of that.

We also invest heavily in broader public benefit in forestry. We have mentioned the very successful mountain bike trails at Glenlivet, and we have put in a great deal of other visitor infrastructure such as footpaths, trails, car parks and interpretation and education facilities. We have a dedicated ranger service at Glenlivet, which undertakes a huge amount of educational work with local schools and provides facilities for visitors.

The management is very much about multiple uses, and we have been recognised in a large number of forestry awards for the sustainable management of our woodland asset. The woodlands are all certified through the Forest Stewardship Council, which verifies sustainable management under the UK woodland assurance standard. We hope to continue that management under the new body. Whether it is appropriate to transfer those assets to the Forestry Commission will be a matter for the new body to consider.

Finlay Carson: Are you seeking potential savings through a transfer at present?

Andrew Wells: Looking at our forest assets will be part of the whole strategic review of our portfolio. We will look at whether there is an opportunity to trade some of those assets as part of providing the capital fund for the new business, and we will consider other potential asset sales as well.

Ronnie Quinn: It is fair to say that those assets are currently managed as part of our profit centre, and we will seek to continue that.

Maurice Golden: On the Applegirth estate, a number of tenant farmers have installed biomass

facilities and are using externally sourced biomass. However, there is Crown Estate-managed forestry on the same estate that produces biomass. I am thinking about the carbon costs of transport. Can you shed any light on that? Are there any plans for demand and supply to be interlinked?

Andrew Wells: There is always opportunity for that. The committee will be aware from its visit that we have a very large industrial biomass plant at Steven's Croft that is very close to the Applegirth estate. Our timber goes there, and the transport distance is very short.

There is always opportunity for small-scale biomass, and we are happy to look at that option. Over the years, we have undertaken biomass trials with various agencies such as the Forestry Commission. For example, up at Glenlivet we have our own wood-fuelled heater and support a local business that harvests our timber and sells the chip back to us to heat our information centre. We are certainly happy to consider that option.

Maurice Golden: I appreciate that from a logistical point of view it is easier to deal with one big supplier, and I appreciate that you have a local arrangement. However, it is incumbent on all agencies to look at small businesses and tenant farmers, and to consider going the extra mile to facilitate smaller contracts. That might be a little more tricky logistically, but ultimately it would make a lot more sense.

Andrew Wells: Indeed. In the early 1990s, we did something very similar at Glenlivet where we worked with a local farm tenant. We identified a lot of small forestry blocks around the estate that were uneconomic to harvest in conventional terms, and we facilitated his diversification of his farm business by putting in a wood-cutting machine and selling timber that he had harvested for small local markets. That is a direct example of something that we did more than 10 years ago. We are always looking at such opportunities.

In addition, we have a contract in place with Estover Energy to supply the new combined heat and power plant at Macallan distillery. We will use low-value timber from Glenlivet to supply that contract.

11:00

Maurice Golden: In general, how long are your contracts for? When will the opportunity be presented to look at that again? Is it a five-plus-two contract?

Andrew Wells: The contract with Estover Energy is over 12 years. At Glenlivet, the issue that we face is that there is a lot of historical, very low-value timber—very low-value lodgepole pine—

that was planted in the post-war period, which does not easily go into traditional markets. The biofuel market offers a good opportunity to supply that timber. The volumes that we have up there are substantial; the contract that we have with Estover represents a very small part of the resource that we have available, so it does not prevent us from supplying other suppliers if we so wish.

The Convener: That is fine. Let us move on to the issue of aquaculture, which Kate Forbes will pursue.

Kate Forbes: Earlier, you mentioned that you have many ambitions for the future. What are your ambitions for aquaculture? In the transition period, how might those ambitions have an impact on rights for approving and consenting to fish farms, for example?

Ronnie Quinn: Giving consent to fish farms is no longer part of the Crown Estate's remit—that is now done through local authorities and Marine Scotland. There has been an evolution in that regard, and I think that that separation of duties is useful and valuable.

As far as taking the industry forward is concerned, we have set ourselves the challenge of identifying where we can look to make an investment that would have a direct line of sight to increased production. We are looking at that, but it is not as straightforward as people might think to find a way of making a direct investment that creates value in that way. We continue to fund various research projects on parasites in an effort to maximise the existing fleet of aquaculture sites, and we are doing what we can to encourage and identify new sites, but we have challenged ourselves to find ways of actively investing that would result in an increase in production and a consequent increase in capital and revenue. It is a virtuous circle.

Gareth Baird: Just last month, our aquaculture manager, Alex Adrian, and I went up to Perth to meet the chairlady of the Scottish Salmon Producers Organisation, Anne MacColl, and the chief executive, Scott Landsburgh, to discuss the opportunities that Ronnie Quinn has just referred to. We are acutely aware of the target that the Scottish Government has set for the salmon industry, and we will do everything that we can to facilitate the meeting of that target.

An allied industry is the shellfish industry. Alex Adrian and I are to meet the Scottish shellfish producers shortly to develop a blueprint to drive that industry forward. There is an enormous appetite for Scotland's high-quality shellfish production. We are very engaged with the various industries and are making a significant effort to boost the opportunities that exist for them.

The Convener: Dave Stewart has a wee supplementary.

David Stewart: I recently had a briefing from two biologists at the University of the Highlands and Islands about closed containment for aquaculture—in other words, aquaculture that is outwith lochs, because of the issues to do with pollution and sea lice. Have you done any work on that?

Ronnie Quinn: I take it that you mean land-based aquaculture.

David Stewart: Yes.

Ronnie Quinn: Because that form of aquaculture is not connected to the Crown Estate's assets, it is not something that it would be within our vires to invest in.

The Convener: Finally, we move on to deal with energy on which Mark Ruskell wants to ask a number of questions. Before he does so, I refer Mr Quinn to the comment in the annual report that there has been

“substantial support to the offshore renewables”

sector, but that

“It will be nearer 2020”

before we start to see the real returns from that. Can you expand on that? What sums we are talking about? Is the Scottish Government in for a nice surprise in respect of income in a couple of years' time? That is what I am getting at.

Ronnie Quinn: I am glad to have the opportunity to quote the numbers that I have traditionally quoted to predecessor committees. To be honest, at this point the big numbers will come from offshore wind. For round 3 sites—including the Moray Firth Offshore Renewables site in the Moray Firth and the Seagreen sites in the outer Forth and the Tay—the expected revenue, based on 2020 values, is in the region of £7.6 million per annum per gigawatt. For non-round 3 sites, we are looking at in the region of £4.3 million per annum per gigawatt. For wave and tidal sites, the numbers look to be in the region of around £30,000 per annum for a 10MW site. The numbers are deliberately scaled because the opportunities—the numbers—for wave and tidal are much smaller at this point.

The Convener: In simple terms, what do you expect that that will mean by way of income?

Ronnie Quinn: Roughly speaking, the Beatrice site represents around half a gigawatt. We expect the first energy in 2019, should everything go according to plan. As members will be aware, the sites in the outer Forth and the Tay are another matter.

The Convener: Yes, because we have a problem there.

Ronnie Quinn: There is an on-going judicial issue—yes.

Mark Ruskell: I am interested in cost reduction, as that is obviously a big issue for offshore renewables and getting a more competitive industry. What work are you doing on that, and how does it feed into the Scottish Government's forthcoming broader energy strategy?

Ronnie Quinn: You are absolutely right: cost reduction is key to competitiveness, not just for offshore wind, but for the wave and tidal sectors. The Crown Estate has published its own report on reducing the levelized cost of energy. There is a fairly weighty tome in the office, complete with quite a full CD of supporting data behind it, that points out where savings can come from.

It is fair to say that there is no silver bullet; it is about incremental improvements in many areas. However, we are starting to see them, and the benefits are now coming through.

We have also published a supply chain guide that effectively sets out the business plan for anyone who is looking to introduce themselves to the supply chain.

The levelized cost of energy for offshore wind has come down dramatically over the past number of years. Offshore wind was often quoted at more than £150 per megawatt hour. For some of the latest Dutch projects, the levelized cost of energy was down to the high 70s. I accept that we are not comparing like with like, as there are transmission issues and different costs there, and a different consenting regime applies, but we have seen evidence of costs coming down dramatically.

The next auction for contracts for difference is due to be announced in the next few weeks. We will be given a guide on what the level will be and I expect it to be significantly lower than the previous number. We are working with our developers across the board to help to structure documentation to support their bids.

The levelized cost of energy has dropped by at least a third, which is a huge gain for the industry, given that the original electricity market reform process set out to identify a route to the industry obtaining £100 per megawatt hour by 2020, and we will exceed that in 2016.

Mark Ruskell: You have been very closely embedded with Government energy policy and the industry for a number of years. What do you expect to come through the new set-up? Do you expect explicit ministerial direction in relation to the work that you are doing around research and collaborative work on energy? In effect, you are an

offshore arm of the Scottish Government's energy policy.

Ronnie Quinn: I do not mean to sound like a broken record but, again, it will be for the new board and ministers to determine where we focus. I certainly see huge opportunities in certain areas, although not across the board. I think that it would be useful for the new entity to focus its attention on areas where there is a route to market and we can identify opportunities that are unique to Scotland. We have to play to Scotland's strengths.

Mark Ruskell: Where are your strengths and weaknesses as an organisation in relation to your capacity and the staff team that you have, or hope to have, in place? Where do you think you can make the greatest contribution to being, potentially, the delivery arm of Scottish Government policy?

Ronnie Quinn: To be honest, we want to be a trusted adviser in relation to identifying those areas. We are already looking at areas that we would be happy to recommend that the new entity take very seriously and go forward with. We are already in discussions with colleagues in the Scottish Government, Scottish Development International and—I will give it its full title because I do not know how to say the acronym—the Department for Business, Energy and Industrial Strategy. We are working with colleagues across the piece on identifying opportunities in Scotland that will play to Scotland's strengths. I am confident that we have the people in Bell's Brae to do that.

Maurice Golden: You touched on revenue projections, particularly in relation to tidal but also in relation to wave. In your assessment, was any thought given to when those might begin to make a decent contribution to your overall revenues? Have you looked at that?

Ronnie Quinn: Yes. The tidal sector—I think that it is sensible to separate the sectors at this point in time—is starting to see its way through commercially. There was the recent announcement of the Bluemull Sound tidal development in Shetland by Nova Innovations, which now has two 100 kilowatt tidal turbines operating. On a much larger scale, the committee will be aware of the MeyGen project in the Pentland Firth, and the Crown Estate has committed £10 million of investment in that project. That is now well advanced—we expect offshore works with regard to the deployment of devices to start in the next few weeks, and the offshore cables have already been laid. I was up there a couple of weeks ago to look at how the onshore substation was working, and it is all looking very positive.

How the investment community at large regards the projects will be key. It was right for the public sector to invest heavily in them until now. Although that should continue, it must be done with an eye to the projects reducing their costs, becoming much more self-sufficient and bringing in private sector finance.

It is fair to say that wave technology is not quite advanced enough for commercial use. I will speak about that at a Scottish Renewables conference next week. There is absolutely no doubt that electricity can be generated using the power of the waves, but it is yet to be proven that we can do that consistently and commercially. We are waiting on the right technology for that to go forward.

The Convener: Thank you for attending, gentlemen. It has been a useful evidence-taking session. These are clearly challenging but exciting times for the Crown Estate. As we heard, there are opportunities for you to operate in different, better and more effective ways. The committee looks forward to engaging with you and the Government over the coming months and years to consider that. We look forward to seeing you again in future.

We will now take a five-minute break while we swap over to the second panel of witnesses.

11:16

Meeting suspended.

11:22

On resuming—

The Convener: I welcome to the meeting the second panel of witnesses: Linda Rosborough, director of Marine Scotland, and David Mallon, head of Crown Estate strategy unit at Marine Scotland, Scottish Government.

I will kick things off. What due diligence has the Scottish Government done on what it is inheriting from the Crown Estate with regard to asset value and liabilities? If you were present earlier, you might have heard questions about a potential backlog of tenancy repairs, and I would like an understanding of what work is being done to inform your view of what you are inheriting.

Linda Rosborough (Scottish Government): I will kick off, but I should first point out that this is obviously a complicated issue; after all, we are talking about a very large and rather complex estate. However, we have secured the services of external consultants, and the Crown Estate has made available to us information on its tenancies and assets and documentation on its holdings and relationships with its lessees. In fact, we had an initial report on that at the end of August, and we

are at the moment sorting through some of the details arising from it.

David Mallon (Scottish Government): It is also worth highlighting that we are not talking about a normal commercial transaction; because it is a type of Government-to-Government transfer, full-scale commercial due diligence is not really our objective. However, we have been looking at how we best ensure that we are aware of any issues and liabilities. Primarily, we think that devolution will also provide an opportunity to secure the position and manage the liabilities in future in a way that is appropriate for Scotland.

The Convener: We will come on to that. At this early stage, how would you characterise what you are inheriting and the condition that it is in? There are duties in the Scotland Act 2016 to maintain the estate as an estate and land. In practical terms, that means that we have to carry out maintenance and look for investment opportunities once the assets are devolved to Scotland. Obviously, those are liabilities in the technical sense that have to be honoured.

There are also the potential implications should things go wrong with an investment in part of the estate, even though the statutory duty is to ensure that those liabilities are managed and sit with the appropriate body. There is the possibility of liabilities flowing back to the interim body as it is envisaged or, potentially, ultimately to the Scottish ministers if the liabilities that are being managed by other parties cannot be funded.

Linda Rosborough: That is one of the active subjects of discussion between us and the Treasury. Over the years, the Crown Estate has been good at ensuring that, as it has taken on additional responsibilities, the other parts of Government that were interested in taking on responsibilities took on the liabilities. An issue that has arisen around that relates to offshore renewable energy, and the matter has come up with the Department of Energy and Climate Change. We are also pursuing liabilities in relation to the Ministry of Defence's use of assets, which could be an issue, too. The issues are live; they are on-going.

The Convener: They are unresolved at the moment.

Linda Rosborough: Yes. We still have to agree the transfer scheme with the Treasury as an essential prerequisite to the devolution of the powers of the Crown Estate.

The Convener: Let us deal with that issue now. What is the latest position on the drafting of the transfer scheme and the timelines that you are working to?

Linda Rosborough: We are still in active dialogue. We had hoped to have had a further draft—further to the one that the relevant committee saw in the previous session—but we have not yet had that. I last wrote in detail in June to the Treasury with a set of requests, picking up some of the points that had been made by committees of this Parliament and the views of stakeholders, as well as on other technical matters. We still await a further draft of the transfer scheme.

The Convener: That seems rather a delay, does it not?

Linda Rosborough: It is slower than we had expected.

The Convener: Has the Scottish Government been able to contribute adequately, in a general sense, to the development of the transfer scheme?

Linda Rosborough: It certainly was not, as was originally envisaged, a joint process. We have seen some movement in the Treasury—it has responded positively to some points that we have made—but the process was never a joint one. The transfer scheme as proposed goes beyond what Smith recommended. It contains a lot of constraining detail, when Smith recommended that how the interests of national infrastructure were to be safeguarded, for example, should be for a memorandum of understanding. It also leaves out certain properties, which ministers are not happy with. There are other matters, too.

David, do you want to add anything?

David Mallon: You have summarised the position quite well. We are awaiting an updated draft of the transfer scheme. We are informed that that will be supplied by the end of September and that the Treasury is still working to a timescale, despite the delay, to enable the transfer by 1 April.

The Convener: On the topic of surprise omissions, is there any movement on Fort Kinnaird? Is the matter still being discussed? Have we given up on that? Where do we stand?

Linda Rosborough: There is no movement on the matter. We continue to press the issue.

The Convener: You are pressing the matter.

Linda Rosborough: Yes.

The Convener: A number of colleagues want to come in. I call Dave Stewart.

David Stewart: I will raise a philosophical point. Would you argue that the Crown Estate protects the public interest? I had a quick glance at the details before I came out this morning. Over the past few years, there have been two or three areas of conflict. For example, there have been

conflicts with salmon farmers in Shetland, moorings in Rothesay and salmon fishing rights in the River Yarrow in Selkirk.

Conflict has been part of the issue. I am not necessarily saying that I agree with this, but some argue that you are just another absentee landlord and that you do not look after the rights of tenants or community land organisations. How do you respond to that?

11:30

Linda Rosborough: Obviously, we are not the Crown Estate—we are working for the Scottish Government and looking at change. At present, under the legislation under which the Crown Estate operates—the Crown Estate Act 1961—it is required to pursue a commercial objective and to maximise the economic return to the Treasury. An issue for the Scottish Parliament in future is the purpose for which the estate should be managed, regardless of who manages it. That is the question that maybe underpins some of the issues that Mr Stewart highlights.

I should also say that, in relation to my day-job responsibility for Marine Scotland, conflict in the marine environment is part and parcel of what happens.

David Stewart: You spoke with feeling on that.

Linda Rosborough: Yes. [*Laughter.*]

Alexander Burnett: I will return to the valuation question. As I am sure that you are hearing, it is obviously important to get the most accurate valuation, whether it is a statutory or red book valuation, given that it will form the baseline.

I ask you to clarify two points. First, we heard from the earlier panel that valuations are normally done in the third quarter or towards the end of the year. With the transfer being on 1 April, what will be the timing of this first and most important valuation?

Secondly, on transparency, what publication and breakdown of the valuation will there be? Will it just be done by activity, as happens currently, or will there be more detail, such as by asset?

Linda Rosborough: We have started on a process of seeking to better understand the assets and the financial processes in the Crown Estate. We have been working on that and moving in a positive direction. Until now, the Crown Estate has operated on a UK-wide basis, and the assets are complex and the information is not always ready to hand. That is the underpinning situation.

I ask David Mallon to say exactly where we are in that process.

David Mallon: It is important to highlight that the assets are the assets, so there is obviously a connection with the point of transfer and knowing the best estimate of their value. However, the more significant point is that control of the assets will be transferred over to Scotland and, ultimately, they will be reported on to the Scottish Parliament. Any valuation exercise in advance of or after the transfer will be able to take account of changes in the valuation of individual assets, but the major development arising from the transfer is the transfer of control.

The Crown Estate is normally involved in a set process to periodically value any changes in the asset base. That relates to buildings and properties but also assets such as portions of the sea bed that are associated with a third-party agreement. Obviously, those are different. As Linda Rosborough said, the diversity of the portfolio creates a challenge to having a valuation that is bang up to date across the entire estate. There will be an opportunity to better understand whether there has been significant change between the previous valuation and the transfer date.

The Convener: There are of course assets that cannot be measured in financial terms: the people who work in the Crown Estate. I have two questions on that. First, how confident are you that the transition is being managed well for their benefit and that they are being kept on board and well informed? Secondly, what effort will you make to listen to the Crown Estate staff, who with their experience might well have excellent ideas about how the organisation could work more effectively in future?

Linda Rosborough: We have a formal joint project with the Crown Estate to look at the process of change. We hold our formal programme management meetings in the Crown Estate premises in Bell's Brae, so we are there and visible to staff.

We are working through a number of workstreams—on HR and IT issues, other process issues and financial management issues—as we look to ensure that we have a good basis for transition to the new arrangements. I am the senior responsible owner for that process, and the arrangements are working well at the moment.

David Mallon is perhaps a bit closer to the staff views and could come in on that.

David Mallon: I highlight that the staff, with their knowledge base, are an important part of the business, given the diversity in portfolio. It is therefore important that we ensure that there is a smooth navigation for staff during the transfer. They are very much taken account of when it

comes to the people element of the work programme that Linda Rosborough described.

We are thinking through all the issues to ensure that we comply with the duties in the Scotland Act 2016 relating to no detriment, and that we act on behalf of the new employer to ensure that staff welfare is taken into account. That involves a lot of joint working with the Crown Estate, which is also looking for opportunities to provide background information on the latest state of play when significant developments arise. We understand that that is also proving beneficial to employees in understanding what the process involves and what the timing is and in providing reassurance on the direction of travel.

Linda Rosborough: The Crown Estate has helpfully created a core body of staff who cover the functions that need to be covered by the new body. To start with, some functions were done outwith Scotland and some within it, but the Crown Estate has reorganised so that the skills that are needed are based in Scotland, which means that we can move forward with confidence.

Alexander Burnett: I appreciate the difficulties with timing and valuations, but I hope that you appreciate that I was trying to make the point with my first question that the performance of Crown Estate Scotland, in terms of a return on capital, will be based on the baseline when it starts.

I do not know whether I heard an answer to the second part of my question, which was on the publication of the valuations and whether the information will be broken down by activity or, further, by asset.

David Mallon: Are you referring to the Scotland report that is normally produced by the Crown Estate?

Alexander Burnett: Yes.

David Mallon: We will be looking at whether there are opportunities to provide more detailed information. That is part of an overall direction of travel to look for new opportunities for increasing transparency. We do not have a blueprint for what the new report will look like, but there is an opportunity to be a bit more detailed.

Claudia Beamish: In a previous life on the Rural Affairs, Climate Change and Environment Committee, I and others asked about the mission statement of the Crown Estate. It was suggested in that previous committee that there might be possibilities for looking at that statement again in relation to issues around sustainable development and possibly environmental stewardship. I would add community involvement, and other committee members might want to highlight other issues.

Has any work been done on that? I appreciate that there will be an interim board and I

understand where the responsibility of the Scottish ministers lies, but it seems important to me in looking to the future to consider how that work could be developed and who would be engaged in it.

Linda Rosborough: That is a valid point. I referred earlier to the fact that, on transfer, the 1961 act provisions will still apply, so the statutory purpose for which the assets have to be managed will remain the same. Obviously, ministers are looking to ensure as fast as possible that we have an interim body that works for Scotland. In considering the proposed arrangements and the criteria for the chair and subsequently other people to be on the body, ministers have agreed that they are looking for a range of skills, which would encompass some of the elements that you mention.

Claudia Beamish: I understand that, but I want to press you a bit further. There is clearly a statutory responsibility under the 1961 act but, beyond that, is there any reason why it would be inappropriate for the Scottish ministers to make additions along the lines that I have highlighted to broaden out the mission statement?

Linda Rosborough: Ministers can look at the framework documentation for the new body with that in mind. The fundamental purpose is still there, however, and it will need to be properly taken into account.

David Mallon: Through a consultation on the long-term framework for management of the assets, there could be opportunities to amend the legal duty that will exist in the interim to think about other drivers such as socioeconomic benefit and environmental responsibility.

Also, as you heard during the latter stages of the earlier evidence session, the Crown Estate is already contributing in some way, shape or form to the delivery of environmental objectives. I think that we are talking about a question of degrees and the extent to which that contribution can be enhanced in future through the interim arrangements. We will be looking at that opportunity within the legal framework and also for the future. It is more like a question of direction of travel and degrees of contribution than a black-and-white situation.

Mark Ruskell: Claudia Beamish talked about the objectives that might be set for the new body and refined on the back of the 1961 act. The other side of that is the ministerial direction powers that will come through the new interim body. How do you envisage those powers being used? Are we looking at something that goes along the lines of Scottish Water, which has high-level objectives, strategic investment programmes and so on?

Alternatively, are we looking at something that will be a bit more detailed?

Linda Rosborough: You highlight direction powers, which tend to be powers of last resort that are not used routinely. In terms of the framework, we will be looking at general objectives within which the interim body will work in the first instance, but ministers will need to agree those. That is my view at the moment.

Mark Ruskell: You are saying that they are powers of last resort, so you would not anticipate—

Linda Rosborough: Powers of direction in the public sector generally tend to be powers of last resort. Ministers do not use them routinely. Generally they provide frameworks within which organisations operate.

Mark Ruskell: How would the Scottish Government envisage working with that new framework? There is an independent board; will the Scottish Government be represented on that board? How will ministers exert influence over the delivery of the objective in a practical sense if ministerial directions are a last resort?

Linda Rosborough: What generally happens is that ministers set up frameworks. One would also envisage some restrictions in relation to abilities to sell assets, or in relation to novel or contentious matters that might need particular agreement with ministers. That is a fairly normal set of circumstances.

On the decisions about appointments to the board and the chair, that would be ministers setting the direction of travel of the body that is being set up.

Mark Ruskell: I will give an example. When we were at the Applegirth estate last week, there seemed to be some on-going flood management issues that were being resolved partly with the tenants and agents and everyone else, but a strategic approach to river basin management planning was lacking. I would expect a public body to slot straight into that wider strategic work. Is that something that ministers would look at and say, "Hang on a minute. This isn't happening. We want to see more good practice and benchmarking with other public sector organisations on that kind of work"?

Linda Rosborough: The ability to better align public policy with other parts of the public sector is one of the big opportunities that will come on devolution, subject, obviously, to the constraints of the commercial remit that the body will have at the outset and the need to ensure that its assets are properly managed.

I imagine that there will be quite a lot of tensions, particularly in the early period, because

a lot of people might want change in things that they have been unhappy about for some time. That will need to be carefully managed. Ministers will not wish to be drawn into day-to-day decisions on individual tenancies and leaseholds; it is proper for ministers to be at one remove from that.

11:45

The Convener: Dave Stewart will ask about stakeholders.

David Stewart: Change can be threatening to stakeholders and leaseholders. What are you doing to reassure them in the change management period?

Linda Rosborough: Our approach to change management has involved ensuring that we retain knowledge, expertise and key abilities and capabilities, so that the delivery of services is as smooth as possible. That has been a strong objective of ministers from the start. At the same time, we are providing a good platform for the future direction of travel, which might well be different. Managing those two aspects has been key to how we have proceeded.

Stakeholders are involved in our stakeholder advisory group; David Mallon has met a number of representatives and we have tried to ensure that they are fully involved. One concern of stakeholders is about the cross-subsidy of some sectors, particularly of tenants by resources from elsewhere in the portfolio. We need to address that issue in thinking about future arrangements.

David Mallon will speak about specifics.

David Mallon: The stakeholder advisory group is designed to ensure that sectors and interests that rely on the Crown Estate for a service can influence the future opportunities. It is also a space for people to raise concerns here and now. The group's discussions are important to our understanding of the issues and opportunities.

In addition, we are providing open lines of communication to individual stakeholder representatives, so that we can understand their concerns, address them—I hope—in the short term or through the consultation and ensure a smooth transfer in the meantime.

David Stewart: Have stakeholders raised any issues that surprised, if not shocked, you? Linda Rosborough mentioned that cross-subsidy is a concern.

David Mallon: The issues have not necessarily surprised us. The dynamics of the group are interesting; the group has made it possible for its members to understand more clearly other sectors' views, which has helped people to understand the future opportunities.

The Convener: Agricultural tenants have a fundamental concern that there might be less of a pot to protect their interest—that will depend on how the arrangements play out. How aware are you of those concerns?

David Mallon: We are aware of them and, as I said, they were not a surprise. It is very much part of the set of discussions to understand the existing and future maintenance requirements and how the obligations can be fulfilled so that we comply with the duties in respect of those needs in the 1961 act.

The Convener: We will drill down into the operation of the interim body and the longer-term management arrangements. In the interim period and the long term, what measures will be put in place to ensure that the Crown Estate's performance internally is measured appropriately in the way in which other public bodies' performance is measured? For example, how responsive is the Crown Estate to approaches from agricultural tenants for repairs? How long does that process take? Are you minded to put in place an overall performance framework for the Crown Estate?

David Mallon: That is part of the set of discussions that we want to have with the new interim body. Going back to what Linda Rosborough said about the framework, I would say that that normally involves objectives and targets being developed by a public body for approval by the Scottish ministers, with ministers being able to influence the targets and to add in new ones. Given the importance of the staff base to successful delivery, that is something that we would be open to looking at, but the honest answer is that we have not yet got that far in the transfer. We are focused on day 1 and on ensuring that the first year does not result in stakeholders and customers receiving a reduced service.

The Convener: That is fine. We will now move on to Maurice Golden, who has questions on the interim body and how it will work.

Maurice Golden: Can you highlight the plans, processes and timescales for setting up the interim body?

David Mallon: Yes. The plan is very much focused on trying to make it possible for the new body to take on functions from next April. That will require further legislation at Westminster on the transfer scheme in order to effect the transfer, and it will also require the legal establishment of the interim body through secondary legislation at the Scottish Parliament.

The processes also involve joint working with the Crown Estate to—and I will put this in simple terms, although the issue itself is very complex—

move from a situation in which the Scottish operation is managed as part of a UK-wide set-up and can receive services, support and headquarter functions from that UK body to a situation in which the new body has the necessary systems and services installed at Bell's Brae. That is another key component of our work as we move towards 1 April.

I can expand a bit on the wider timescales, if that would be useful.

Maurice Golden: Yes.

David Mallon: In parallel with the preparatory work for the interim body, on which we are now engaged, we also want to demonstrate early action on what the future might look like. The April timescale is focused on trying to deliver devolution to Scotland as soon as possible through the legal process set up under the Scotland Act 2016, and the reason for that is to reduce uncertainty as much as possible for stakeholders, investors and staff. Likewise, there is a degree of uncertainty about what the longer-term future will look like, so we are aiming to launch a consultation later this year on the options for long-term management of the assets.

Maurice Golden: From a practical point of view, I am aware that, when agencies have received devolved status in the past, they have had a great opportunity, first, to better reflect the Scottish Government's overall view—indeed, Mark Ruskell has already alluded to some of those welcome aspects—and, secondly, to be more innovative and to connect better with relevant stakeholders by virtue of size. Are you aware of how the civil service currently interacts with the Crown Estate, and how do you envisage that going on? There is a concern that, with agencies that have been devolved in the past, scrutiny—carried out not, I should say, by public committees but by civil servants—has clogged up various processes, and it has suddenly become very difficult to achieve the aims that I am sure we were all wishing for. How aware are you of current interaction, and how do you view it going forward?

Linda Rosborough: At the moment, we are talking about a UK body answering to the Crown Estate Commissioners. There will be a change, and the Scottish Government has proposed a statutory corporation with a board. With that governance framework, there will not be the kind of day-to-day intrusion that you might expect would happen if the body were to be brought within the Scottish Government in the way that some have suggested; it will give the body a bit of flexibility within a framework to carry out the job of delivery.

There will be a lot of expectations because, rightly, people are looking forward to the

devolution of Crown Estate land around Scotland, often for different reasons in different parts of Scotland. There will be challenges around ensuring that the benefits are delivered and that those expectations are managed. That will require quite a lot of work to be done at the same time as ensuring that the day job is done. Quite a lot of the day-to-day work is done through managing agents, and the core staff is actually very small. Those systems have been set up on a contractual basis, so much of that work will continue.

Maurice Golden: Will you be considering a scheme of delegation so that we have transparency over who is able to do what and who is responsible for things such as land transactions, so that we can ensure that such things are signed off at the appropriate level?

Linda Rosborough: Yes.

The Convener: I want to pick up on the deputy convener's point about innovation. In the earlier session, we asked whether, in moving into this process, the Crown Estate had given any thought to bringing forward ideas about how it could operate more effectively, given its expertise. The phrase that was used in response was, "We wouldn't present a blank sheet of paper," so some thought has been given to that. Is the Government geared up to listen to that and to work actively with the Crown Estate to implement some of those changes to the benefit of everybody?

Linda Rosborough: Yes. In my engagement with Crown Estate staff who live and work in Scotland, I see that there is an obvious sense of expectation that the changes will enable them to do a better job for the people of Scotland. Roseanna Cunningham will meet with staff soon, and I think that we have created the opportunities for that dialogue to happen.

That said, the overall position with regard to the future of the Crown Estate that was set out by the Smith commission needs to be worked through thoroughly. That will mean that staff will feel a bit uncertain. We are committed to setting out the options for consultation. A lot of people are aware of the expertise that rests in the Crown Estate and the opportunities that flow from that for Scotland, and of the need to safeguard that.

Claudia Beamish: I have a follow-up question related to accountability and the interim board. Are there plans relating to how that will be transparent to the general public? Will there be written reports? Will they be put on a website? Have you had any discussions about that? Such steps would help to reassure the range of people who are involved.

Linda Rosborough: We would expect normal procedures of openness to apply, subject to the commercial confidentiality that can exist around a

number of issues that are relevant to the management of the Crown estate.

Alexander Burnett: Clearly, the transfer is an exciting time. I see that the closing date for applications for the chair was yesterday. Can you give us an indication of how many people applied for the job?

Linda Rosborough: I know that we have had applications but I do not have the final figure.

David Mallon: I do not have that, I am sorry.

The Convener: Could you outline the thinking around allowing Crown Estate Scotland to borrow money?

David Mallon: That stems from our wish to ensure that there can be a going-concern approach to the transfer and that there is flexibility to make the most of the assets and ensure that there is security and resilience to funding. That concerns one example of the inefficiencies that Crown Estate staff identified in the 1961 act. Given the age of that legislation and the fact that there is less detail than we would like on the origins of that control, we have been considering the possibility of introducing that flexibility.

12:00

The Convener: I realise that it might be difficult to quantify but, by way of ballpark guidance for the committee, what kind of timescales are you working to for the secondary legislation that might come to us?

David Mallon: The consultation on the proposed secondary legislation closed on 26 August, so we hope to be able to analyse the responses to it in a matter of weeks and to lay the order in the autumn. Ideally, we would lay it in October. That is our current timescale, subject to ministerial approval.

Mark Ruskell: The consultation finished on 26 August, so it is early days. However, have you concluded that you want to make any changes to the interim body as proposed in the consultation? Can you point to any tweaks as a result of the consultation?

David Mallon: There is nothing specific at this stage. We will produce a summary of the responses along with the draft order. We are just starting that analysis to weigh up the responses to the consultation.

Mark Ruskell: It would be useful if we could get early sight of that.

The Convener: That would be good.

Clearly, your focus now is on doing everything that you have to do to get things up and running. What thoughts are being given to consulting on

the longer-term arrangements on the Crown Estate? Will that work link into the proposed islands legislation?

David Mallon: A lot of thought has gone into the consultation for the long-term. That has involved discussions with the stakeholder advisory group. There are some key questions on which we need to try to reach a final view through the consultation and there are implications that flow from that to preferred ways forward on each of those issues.

For example, we discussed earlier whether the duty to obtain the best consideration—the maximum commercial value—should be the controlling factor in decision making on sales or the leasing of assets in the long term or whether there is a better approach, such as providing flexibility to take account of wider socioeconomic benefit, economic benefit and environmental issues. Providing a degree of flexibility is one issue on which we want to obtain wider views.

We also need to come to final decisions on what the opportunities are for further devolution and to whom the powers might be devolved—a particular level of government or communities, for instance. To come back to some of the points about investment and maintenance, we need to think about how we fulfil the duties in the Scotland Act 2016, irrespective of what the 1961 act says, to ensure that we manage the estate and land efficiently to maximise the benefits for Scotland.

Those are the themes that we are exploring. We are also exploring how best to manage liabilities where they exist or might exist. That is another stream of thinking.

Linda Rosborough: You asked about the islands, convener. There is a strong appetite for early progress in the islands. They are pressing for a pilot to go ahead of other legislation. At the moment, we do not have the power to provide for a change specifically for the islands. That would happen only once the transfer has taken place, which will be well into next year. Therefore, there are some timing challenges on that, as well as the principle of whether it would be sensible to do something in one place ahead of considering the overall long-term future. Those will all be matters for the consultation.

The Convener: Okay. So, in essence, there will certainly be an opportunity to shape and alter the Crown Estate's future direction.

David Mallon: Yes.

The Convener: That is good to hear.

My colleagues have asked everything that they wanted to ask. Are there any areas that we have not covered? Do you want to make any comments that would provide further insight into what is happening?

Linda Rosborough: No, I do not think so. The key thing is to ensure that the transfer is done in a timely way, that the Scottish ministers, who have to agree to the transfer scheme, are content with it and that the scheme is fit for purpose.

The Convener: The scheme will also be a key area of interest to the committee, so we would welcome being kept updated on its progress over the next few weeks and beyond that.

I thank the witnesses for attending. It has been most useful. I also thank the earlier panel of witnesses.

At its next meeting, on 13 September, the committee will take evidence from the Committee on Climate Change on the Scottish greenhouse gas emissions targets and from the clerk to the Scottish Parliament on the Parliament's climate change and environmental policies.

As agreed earlier, we now move into private. I ask that the public gallery be cleared. The public part of the meeting is now closed.

12:06

Meeting continued in private until 12:30.

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