

Presented pursuant to c.55, section 2(5) of the Crown Estate Act 1961.

Crown Estate Account 2005-2006

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Foreword to the Financial Statements

Background information

The Crown Estate Act 1961 was enacted by Parliament in pursuance of the recommendations of the Report of the Committee on Crown Lands which visualised the role of The Crown Estate Commissioners as analogous to that of trustees of a trust fund. The Act charged the Commissioners with the management of The Crown Estate.

The Crown Estate may be traced back to the reign of King Edward the Confessor and, until the accession of King George III, the Sovereign received its rents, profits and expenses. However since 1760, the annual surplus, after deducting management costs, has been surrendered by the Sovereign to Parliament to help meet the costs of civil government. In return, the Sovereign receives the civil list and the Government meets other official expenditure incurred in support of the Sovereign.

The duties of the Commissioners are to maintain The Crown Estate as an estate in land (with such cash or investments as may be required for the discharge of their functions) and to maintain and enhance its value and the return obtained from it, but with due regard to the requirements of good management. By the Civil List Act 1952 the net income from The Crown Estate, after defraying costs of collection and management, is required to be paid into the Exchequer and made part of the Consolidated Fund (general government revenues).

The Commissioners have authority to do on behalf of the Crown in relation to The Crown Estate all such acts as belong to the Crown's right of ownership, subject only to the detailed restrictions set out in the Act. The Commissioners must comply with such directions, as to the discharge of their functions under the Act, as may be given to them by the Chancellor of the Exchequer and the Secretary of State for Scotland. The Commissioners submit annually to the Treasury a forecast of their activities in a corporate plan covering the following and two ensuing years.

The Crown Estate is not the property of the Government, nor is it the Sovereign's private estate. It is part of the hereditary possessions of the Sovereign in right of the Crown.

The Crown Estate Commissioners are a statutory corporation; they are not a company for the purposes of the Companies Act.

The Crown Estate may not be held other than in land, gilts or cash. Investment in equities or outside the United Kingdom is not permitted.

The Crown Estate has no general powers to borrow, either for capital purposes or for working balances, and there is thus no external indebtedness in the balance sheet.

Under The Crown Estate Act 1961 (First Schedule, para. 5) monies are provided by Parliament (Resource Finance) towards the cost of the Commissioners' salaries and the expense of their office.

Crown Estate Commissioners

The composition of the Board of Commissioners during 2005-2006 was

Ian Grant, CBE, FRAgS, Chairman of the Board

Roger Bright, MA, Chief Executive and Accounting Officer; Deputy Chairman of the Board

Sir Donald Curry, KB, CBE, FRAgS

Hugh Duberly, CBE, DL

Jenefer Greenwood, BSc, FRICS

Martin Moore, MRICS

Dinah Nichols, CB

Ronald Spinney, CBE, FRICS

Statement of The Crown Estate Commissioners' and Accounting Officer's responsibilities

The Commissioners are responsible for ensuring that The Crown Estate has in place a system of controls, financial and otherwise, and under section 2(5) of The Crown Estate Act 1961 are required to prepare a statement of accounts in the form and on the basis determined by the Treasury. The accounts are prepared on an accruals basis and must give a true and fair view of The Crown Estate's surplus, state of affairs at the year end and of its income and expenditure and cash flows for the financial year.

In preparing the accounts the Commissioners are required to

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

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

Statement on Internal Control

The purpose of the system of internal control

The system of internal control is based on an ongoing process designed to identify and prioritise the risks which threaten the achievement of The Crown Estate's policies, aims and objectives, as set out in The Crown Estate Act 1961; to evaluate the likelihood of those risks being realised and their impact should they be realised; and to manage them efficiently, effectively and economically.

It is designed to manage risk down to an acceptable level rather than to eliminate all risk of failure and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control has been in place in The Crown Estate for the year ended 31 March 2006 and up to the date of approval of the annual report and financial statements, and accords with Treasury guidance.

Capacity to handle risk

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

During 2005-2006, a number of developments have been made to The Crown Estate's internal control environment

- further embedding of the risk framework throughout the organisation;
- project risk management has been fully incorporated into The Crown Estate risk framework with the Project Monitoring Committee now reviewing all major projects within The Crown Estate project portfolio from a risk perspective;
- introduction of a Cross Department Review Committee that reviews risks and opportunities; and
- during 2005-2006 formal risk management awareness sessions took place for the benefit of all staff at The Crown Estate.

Risk management is embedded within all key processes of The Crown Estate, with which all staff are familiarised during induction processes and via 'on the job' training and awareness. Project and business managers received ongoing training on risk management during 2005-2006.

The Crown Estate's risk management policy and guidelines are held within its intranet, which is accessible to all staff. The risk management procedures include appropriate metrics designed to provide both support to staff in the tasks in which they are involved and consistency of results across all departments.

The Crown Estate's Risk Manager, the Director of Finance and Information Systems, is responsible for the implementation, co-ordination and monitoring of the risk management process across The Crown Estate and administers the strategic risk register.

The risk and control framework

The Crown Estate's risk framework, policy and processes are consistent with the best practices as defined in the Office of Government Commerce's Management of Risk (M_o_R): Guidance for Practitioners and with the contents of Government Accounting Chapter 21. The framework adopts the strategic programmes, projects and operational model contained within this guidance and aligns the guidance with The Crown Estate's corporate planning cycle that is well developed and embedded.

Strategic risks and their assessment are the responsibility of the Management Board. Programme and project risks are assessed in a hierarchy with the Project Monitoring Committee reviewing major projects and their risks within

the overall portfolio every quarter and individual project managers managing all project risks on an operational basis. This tiered structure supports The Crown Estate in identifying and managing trends across the projects and also in providing further assurance that risks are being managed in a pragmatic and efficient manner. Risks are discussed, at a minimum, on a quarterly basis at departmental team meetings or similar forums. The risk manager and the central risk function assist in the facilitation of this process with the support of external consultants.

Strategic 'red' risks are reviewed by the Management Board on a quarterly basis, by exception. The Cross Cutting Committee review all amber risks to identify interrelated and aggregated risks. Furthermore this body has appropriate delegated authority to manage these amber risks to allow the Management Board to fully focus on The Crown Estate's key risks. The Risk Manager reviews departmental risks to identify links between departments and projects where the impact of one or more risks could affect others. Serious departmental risks are escalated as and when necessary firstly to the Cross Cutting Committee and if necessary to the Management Board, for consideration for inclusion onto the strategic risk register.

Risk registers are held centrally in the Intranet for all departments and their projects. Risk reporting, based around internal control statements (ICSs), is now an embedded and standard management process that provides additional assurance that risks are being actively managed across the whole of the organisation.

Risk appetites and tolerances are assessed and delegated by Crown Estate management, reflecting experience and past history of effective risk management. Impact metrics and regular monitoring and review ensure that delegated approval limits are consistently applied throughout the business.

Review of effectiveness

The Audit Committee is responsible for reviewing the effectiveness of the system of internal control. It is informed by the work of the internal auditors, the executive managers (who have responsibility for the development and maintenance of the internal control framework) external consultants and NAO, by way of comments contained in their management letter.

During 2005-2006 two audits were conducted on the risk management process by The Crown Estate's Internal Audit Department and by external risk advisers. The findings of these audits were consistent with one another and they were reported together to the Audit Committee in November 2005.

The Audit Committee have reviewed the effectiveness of the system of internal control. A plan to ensure continuous improvement of the system is in place. This plan covers the coming financial year and will conclude with a further healthcheck prior to the issue of the next statement of Internal Control.

Internal control problems

For the financial year 2005-2006, the Internal Audit Assurance report shows that there are some internal control weaknesses in the financial systems and processes but there is evidence that these are being addressed and the system is improving.

Review of activities

The Crown Estate's aim is to continue to enhance the value of the estate and return obtained from it, in accordance with The Crown Estate Act 1961.

During the year ended 31 March 2006, the capital value of the property portfolio increased by £873 million to £5,685 million, with capital released of £139.7 million. The revenue surplus increased by 3.2 per cent to £190.8 million.

A full review of the activities of The Crown Estate is given in the preface by the First Crown Estate Commissioner (the Chairman), the Chief Executive's statement and the operating and financial review in The Crown Estate Annual Report and Financial Statements.

Auditors

The financial statements of The Crown Estate are audited by the Comptroller and Auditor General in accordance with section 2(6) of The Crown Estate Act 1961. The audit certificate appears on pages 11 and 12. No fees have been incurred in respect of non-audit services. The audit fee for work performed in the year of account was £90,000.

Statement on disclosure of relevant audit information to the entity's auditors

So far as the Accounting Officer is aware, there is no relevant audit information of which the entity's auditor is unaware; and the Accounting Officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the entity's auditors are aware of that information.

Results and appropriations for the year

The results are set out in the revenue account on page 13. The surplus for the year amounted to £190.8 million (£184.8 million at 31 March 2005), and the contribution to the Consolidated Fund was £188.0 million (£185.7 million at 31 March 2005). The retained revenue reserve at 31 March 2006 was £7.5 million (£4.6 million at 31 March 2005).

Valuation of land and buildings

The valuation of The Crown Estate land and buildings as at 31 March 2006 was £5,685 million. This represents an increase of £873 million on the 2005 valuation.

Fixed assets

During the year to 31 March 2006, The Crown Estate expenditure on other fixed assets was £3.0 million (£2.1 million during the year to 31 March 2005), as shown in Note 15 to the accounts.

Charitable donations

The Crown Estate provided donations to a range of bodies, including charities, totalling £7,467 in 2005-2006 (£25,405 in 2004-2005), as permitted by The Crown Estate Act 1961, section 4(2).

Supplier payment performance

The Crown Estate's payment policy is to pay all suppliers within 30 days of receipt of a correctly documented invoice, or on completion of service where a fee is recoverable from a third party, or according to contract where a shorter payment period is agreed. During the year The Crown Estate paid 74 per cent of invoices from suppliers within this period. This percentage includes invoices under dispute and amounts recoverable from third parties. On average, invoices from suppliers are paid within 30 days of receipt. The Crown Estate observes the principles of the 'Better Payment Practice Code'.

Corporate responsibility

The Crown Estate reports annually on its corporate responsibility (CR) activities in relation to business, environmental, employer, and social responsibilities. The organisation's commitment to enhancing the unique assets of The Crown Estate through its core values of commercialism, integrity, and stewardship are reflected in the specific objectives which are set each year, and the report sets out progress and achievements in relation to these objectives and performance targets.

Equal opportunity

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

Employee involvement

The Crown Estate is accredited as an 'Investor in People' and has established employee forums to ensure the engagement of its employees and the opportunity to discuss issues affecting the business and people's employment and working environment. A corporate forum has been established chaired by the Chief Executive with separate forums for London, Windsor and Scotland. The forums are formally constituted and comprise trade union representation, elected staff representatives and others.

Other means of communication with employees have also been maintained through an office magazine, team briefings, a constantly updated intranet and organisational briefings by the Chief Executive. In addition employees receive information on the corporate plan and other management information. They also receive copies of the annual report and financial statements.

Roger Bright
Second Commissioner and Accounting Officer

14 June 2006

Remuneration Report

Remuneration Committee

During the last financial year the Chairman established a Remuneration Committee in line with the principles and requirements set out in The Combined Code. The Remuneration Committee is appointed by and reports to the Main Board. Its primary purpose is to ensure scrutiny and oversight of the reward packages for senior managers including base pay issues and performance awards.

The current members of the Remuneration Committee are

Hugh Duberly (Chairman)

Jenefer Greenwood, non-executive Board Member

Martin Moore, non-executive Board Member

The Chief Executive, Director of Corporate Operations and Director of Finance and IS attend meetings but absent themselves if matters relating to their individual reward packages are discussed. The secretary to the remuneration committee is the Head of Human Resources.

Remuneration and pension entitlements of the Board were as follows

Board	2005-2006 Total Remuneration including bonus	2004-2005 Total Remuneration including bonus	Real increase in pension at 60	Total accrued pension at 60 at 31 March 2006	Cash equivalent transfer value as at 31 March 2005	Cash equivalent transfer value as at 31 March 2006	Real increase in cash equivalent transfer
Ian Grant Chairman	47,866	46,699	0	0	0	0	0
Roger Bright Chief Executive	250,000	214,614	(5,725)	73,161	1,303,276	1,477,669	154,268
Sir Donald Curry	18,536	18,084	0	0	0	0	0
Hugh Duberly	18,536	18,084	0	0	0	0	0
Jenefer Greenwood	18,536	18,084	0	0	0	0	0
Martin Moore	18,536	18,084	0	0	0	0	0
Dinah Nichols	18,536	18,084	0	0	0	0	0
Ronald Spinney	18,536	18,084	0	0	0	0	0

The Chairman and Non-Executive members of the Board are initially appointed for terms of four years with the prospect of renewal for a further term. Roger Bright, the Chief Executive, is also appointed on a four year contract with a notice period of six months and his current contract expires in September 2009.

Roger Bright the Chief Executive is entitled to receive a non-pensionable annual bonus which is geared to specific targets and is approved by the Treasury. During the year he received a bonus of £65,000 (£51,153 in 2004-2005).

The salary and pension entitlements of the members of the Management Board were

	2005-2006 Total Remuneration including bonus	2004-2005 Total Remuneration including bonus	Real increase in pension at 60	Total accrued pension at 60 at 31 March 2006	Cash equivalent transfer value as at 31 March 2005	Cash equivalent transfer value as at 31 March 2006	Real increase in cash equivalent transfer value
Management Board							
Christopher Bouchier	105-110	90-95	2,572	30,240	366,786	426,026	57,936
Giles Clarke	120-125	85-90	1,725	8,489	55,083	93,483	48,650
John Ford	85-90	90-95	1,448	35,982	585,439	635,484	48,910
Martin Gravestock	100-105	90-95	1,578	39,765	612,871	803,647	186,000
David Harris (appointment concluded 31 March 2006)	95-100	90-95	0	0	0	0	0
Robert Hastings (appointed 1 February 2006)	15-20	0	264	264	0	2,769	2,215
John Lelliott	105-110	95-100	1,921	43,325	654,171	724,262	68,708
Elspeth Miller (appointment concluded 2 March 2006)	80-85	80-85	723	6,500	64,186	76,725	11,404
Frank Parrish (retired 31 January 2006)	80-85	90-95	880	44,425	787,189	813,673	25,398

Members of the Management Board are appointed on permanent contracts which provide for a notice period of three months. Their remuneration is determined by reference to individual job responsibilities and market data and is reviewed periodically.

Total remuneration includes salary, performance bonuses, flexible benefit and leave converted into salary. In addition to salary, non-pensionable bonuses are payable to members of the Management Board. Members of the Management Board, excluding the Chief Executive, are entitled to individual levels of non-pensionable discretionary bonus up to 10 per cent of their salary which is performance related and is approved by the Remuneration Committee. Members of the Management Board, excluding the Chief Executive, also receive a non-pensionable flexible benefit of 6 per cent of base pay which is available to all office based employees. This benefit was introduced in October 2004 and replaced the existing 2004-2005 group bonus and performance pay arrangements.

Christopher Bouchier, as Director of Rural Estates, received a car mileage allowance of £5,500 (£6,000 in 2004-2005).

Pensions

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

The Crown Estate board members with the exception of Roger Bright, Chief Executive, are non-executive appointments and are not members of either The Crown Estate Pension Scheme or the Principal Civil Service Pension Scheme.

Pension benefits are provided to Roger Bright, Chief Executive and members of the Management Board through the Principal Civil Service Pension Scheme or The Crown Estate Pension Scheme with the exception of David Harris who has his own personal pension scheme. Roger Bright and Martin Gravestock are members of the Principal Civil Service Pension Classic Scheme, Giles Clarke and Robert Hastings are members of the Principal Civil Service Pension Premium Scheme. The remaining members of the Management Board are ordinary members of The Crown Estate Pension Scheme. Roger Bright's bonus is non-pensionable.

Both schemes provide benefits on a 'final salary' basis at a normal retirement age of 60. Benefits accrue at the rate of 1/80th of pensionable salary for each year of service except for the Principal Civil Service Pension Premium Scheme which is 1/60th. In addition a lump sum equivalent to three years' pension is payable on retirement. Members pay contributions of 1½ per cent of pensionable earnings with the exception of the members of the Principal Civil Service Pension Premium Scheme which is 3.5 per cent. Pensions payment increase is in line with the retail price index. On death, pensions are payable to the surviving spouse at a rate of half the member's pension. On death in service, a lump sum benefit of four times pensionable pay is payable to Crown Estate Pension Scheme members. This benefit has also been extended to Roger Bright, Martin Gravestock, Giles Clarke and Robert Hastings. Both schemes provide a service enhancement in computing the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill-health. In this case pensions are brought into payment immediately without actuarial reduction and with service enhanced as for widow(er) pensions.

Roger Bright
Second Commissioner and Accounting Officer

14 June 2006

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

I certify that I have audited the financial statements of The Crown Estate for the year ended 31 March 2006 under The Crown Estate Act 1961. These comprise the Revenue Account, the Balance Sheet, the Cashflow Statement and Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them.

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

The Commissioners and Accounting Officer are responsible for preparing the Annual Report, the Remuneration Report and the financial statements in accordance with the The Crown Estate Act 1961 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of the Commissioners and Accounting Officer's responsibilities.

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with The Crown Estate Act 1961 and Treasury directions made thereunder. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report to you if, in my opinion, the Annual Report is not consistent with the financial statements, if The Crown Estate has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the statement on page 4 reflects The Crown Estate's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of The Crown Estate's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Annual Report, the unaudited part of the Remuneration Report and the Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinions

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Commissioners and Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to The Crown Estate's circumstances, consistently applied and adequately disclosed.

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

Opinions

In my opinion

- the financial statements give a true and fair view, in accordance with The Crown Estate Act 1961 and directions made thereunder by Treasury, of the state of The Crown Estate's affairs as at 31 March 2006 and of its surplus for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with The Crown Estate Act 1961 and Treasury directions made thereunder; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General

21 June 2006

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Revenue account for the year ended 31 March 2006

	Notes	2005-2006 £000	2004-2005 £000
Turnover	2	252,341	245,444
Direct operating costs	2	(31,613)	(31,953)
Gross surplus	2	220,728	213,491
Administrative expenses	3	(12,321)	(11,746)
Indirect operating expenses	4	(1,030)	(2,007)
Recovery of capital expenditure	8	(27,087)	(24,279)
Operating surplus		180,290	175,459
Profit/(loss) on sale of fixed assets		137	(31)
Income from gilt-edged investments		1,523	846
Bank interest receivable	9	15,645	14,752
FRS17 Retirement benefits – net financing cost	7	(56)	(126)
Surplus on ordinary activities		197,539	190,900
Parliamentary Resource finance	10	2,141	2,024
Statutory transfers	11	(8,863)	(8,113)
Net revenue surplus		190,817	184,811
Consolidated Fund payment	12	(188,000)	(185,700)
Residue carried to revenue reserve		2,817	(889)
Revenue reserve brought forward		4,640	5,529
Revenue reserve carried forward		7,457	4,640

The notes (including accounting policies) on pages 17 to 30 form part of these accounts.

Statement of Total Recognised Gains and Losses for the year ended 31 March 2006

	Notes	2005-2006 £000	2004-2005 £000
Net revenue surplus		190,817	184,811
Actuarial gain/(Loss) FRS17 retirement benefits	7	(2,717)	605
Gilt-edged security dealings		761	423
Unrealised increase in investment property portfolio valuation	13	803,533	465,223
Unrealised increase in antiques and paintings		0	983
Unrealised increase in owner occupied properties	14	9,854	981
Other losses		(1,577)	(1,018)
Total recognised gains and losses in the year		<u>1,000,671</u>	<u>652,008</u>

The notes (including accounting policies) on pages 17 to 30 form part of these accounts.

Balance sheet at 31 March 2006

	Notes	2005-2006 £000	2004-2005 £000
Fixed assets			
Tangible assets			
Investment properties	13	5,578,941	4,738,516
Owner occupied properties	14	106,454	73,508
Other fixed assets	15	4,577	3,209
		5,689,972	4,815,233
Investments			
Mortgages and loans	16	64	64
Other investments	17	4,995	5,042
		5,059	5,106
Current assets			
Stocks and work in progress	18	175	186
Debtors and prepayments	19	37,569	30,825
Gilt-edged securities	20	33,322	33,205
Cash at bank		216,132	242,515
		287,198	306,731
Creditors: due within one year			
Pension fund provision	7	(5,824)	(3,364)
		241,567	270,086
Net current assets		5,936,598	5,090,425
Total assets less current liabilities			
Capital and reserves			
General capital reserve	27	1,937,956	1,817,355
Revaluation reserve	27	3,997,537	3,272,065
Revenue reserve	27	7,457	4,640
Pensions reserve	27	(6,352)	(3,635)
		5,936,598	5,090,425

The notes (including accounting policies) on pages 17 to 30 form part of these accounts.

Roger Bright
Second Commissioner and Accounting Officer

14 June 2006

Cash Flow statement for the year ended 31 March 2006

	2005-2006 £000	2004-2005 £000
Net cash inflow from operating activities	208,917	198,229
Returns on investments less Consolidated Fund payment		
Interest from gilt edged securities	1,542	2,347
Interest received	15,865	15,003
Consolidated Fund payment – Revenue surplus	(190,300)	(183,400)
Net cash decrease from returns on investments less Consolidated Fund payment	(172,893)	(166,050)
Capital income/(expenditure)		
Purchase of property	(132,593)	(25,417)
New works and improvements and other capital outlay on properties	(67,085)	(78,249)
Sale of properties	137,074	160,344
Other capital receipts	2,620	6,374
Mortgage repayment	0	42
Mortgage advance	0	(64)
Purchase of fixed assets and antiques	(3,034)	(2,102)
Sale of fixed assets and antiques	165	67
Other cash flows and investing activities	(1,695)	(2,192)
Net cash (decrease)/increase from capital income and expenditure	(64,548)	58,803
Management of liquid resources		
Purchase of gilt-edged securities	0	(49,307)
Sale of gilt-edged securities	0	48,015
Net decrease from management of liquid resources	0	(1,292)
Financing		
Parliamentary Resource Finance	2,141	2,024
(Decrease)/increase in cash	(26,383)	91,714
Notes to cash flow statement		
1 Reconciliation of operating surplus to net cash inflow from operating activities		
Operating surplus	180,290	175,459
Recovery of capital expenditure	27,087	24,279
Increase in debtors	(6,985)	(223)
Increase/(decrease) in creditors	8,514	(1,296)
Decrease in stocks and work in progress	11	10
	208,917	198,229
2 Analysis of change in cash as shown in balance sheet		
Balance at 1 April 2005	242,515	150,801
Net cash (outflow)/inflow	(26,383)	91,714
Balance at 31 March 2006	216,132	242,515

The notes (including accounting policies) on pages 17 to 30 form part of these accounts

Notes to the Financial Statements for the year ended 31 March 2006

1 Accounting policies

a Accounting basis

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

b Crown Estate Act 1961 – Statutory provisions

The Crown Estate is a body corporate regulated by statute. The provisions of The Crown Estate Act 1961 specify certain distinctions between capital and revenue reflecting the Report of the Committee on Crown Lands before the Act was passed, to the effect that The Crown Estate resembles a trust, in which the income beneficiary is the Exchequer and the capital is held for Her Majesty and Her Successors. Section 2(4) of the Act requires capital and revenue to be distinguished in the accounts and for provision to be made for recovering capital expenditure from revenue where appropriate and the accounts are prepared on that basis. The section then specifies that

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

c Treasury agreements

By agreement with the Treasury the capital account is charged with

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

Expected lives are as follows

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

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

d Valuation

The portfolio of land and buildings and other property assets has been valued at 31 March 2006 by professionally qualified external valuers. The valuations have been carried out in accordance with the Appraisal and Valuation Standards of the Royal Institution of Chartered Surveyors. The valuation has been carried out as follows

Investment properties

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

Marine and mineral assets are valued only where a letting or licence exists, where entry has occurred, or where an interest is expected to provide either a revenue cashflow or a capital receipt within the foreseeable future. Wind farm sites where an option has been granted within round 1 and round 2 of the wind farm tender process have been included. Mineral bearing land, including marine dredged aggregates, is valued on the basis of market value.

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

Owner occupied properties

Properties occupied by The Crown Estate are valued on the basis of existing use value, this includes dwellings occupied by The Crown Estate employees and pensioners at Windsor.

e Disposal of freehold properties

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

f Depreciation and amortisation

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

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

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

g Operating lease incentives

UITF28 requires landlords in the property sector to treat any incentive for lessees to enter into a lease agreement as a revenue cost and also account for rental income from the commencement of any rent free period. The cost of all lease incentives (such as rent-free periods) is offset against the total rent due and the net rental income is then spread evenly over the shorter of the period from the rent-free or rent commencement date as appropriate, to the date of the next rent review or the lease end date. Contributions made towards tenant's fit out costs and other costs are charged to capital as new works and improvements and are recovered from revenue over twenty five years.

h Stocks

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

i Gilt-edged securities

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

j Grants

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

k Turnover

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

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

l Taxation

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

m Revaluation reserve

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

2 Analysis of gross surplus

	Urban Estate	Rural Estate	Marine Estate	Windsor Estate	Crown Estate HQ	2005-2006 Total Crown Estate £000	2004-2005 Total Crown Estate £000
	£000	£000	£000	£000	£000		£000
Turnover							
Rent and royalties	187,007	21,197	36,897	3,399	0	248,500	238,745
Premiums on leases	1,489	0	0	0	0	1,489	3,913
Sale of produce	0	350	0	314	0	664	740
Other	116	35	42	1,143	352	1,688	2,046
Total	188,612	21,582	36,939	4,856	352	252,341	245,444
Operating costs							
Management fees and costs	6,073	2,851	1,519	4,114	(37)	14,520	13,416
Repair and maintenance	2,323	1,770	10	1,398	0	5,501	6,777
Other expenditure	9,322	839	1,263	952	(784)	11,592	11,760
Total	17,718	5,460	2,792	6,464	(821)	31,613	31,953
Gross surplus	170,894	16,122	34,147	(1,608)	1,173	220,728	213,491

Other expenditure includes the movement on the provision for bad and doubtful debts as follows

	2005-2006 £000	2004-2005 £000
Provision at the beginning of the year	4,248	5,327
Income written off during the year	(314)	(937)
Reduction in provision for the year	(912)	(142)
Provision at the end of the year	3,022	4,248

3 Administrative expenses

Administrative expenses comprise

	2005-2006 £000	2004-2005 £000
Salaries, N.I. and pension costs	7,295	6,321
Commissioners' remuneration	466	370
Management and administration expenses	4,470	4,965
Auditor's remuneration	90	90
	12,321	11,746

4 Indirect operating expenses

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

	2005-2006	2004-2005
	£000	£000
Re-organisation expenses	1,030	2,007
	1,030	2,007

5 Employee information

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

	2005-2006	2004-2005
	£000	£000
Wages and salaries	10,522	10,314
Social security costs NI (employer's contribution)	944	909
Pension accrued liability	2,464	2,200
Pension payments	723	767
Capitalised staff costs	(2,411)	(2,049)
	12,242	12,141

b The average number of employees during the year was 386 made up as follows

	2004-2005		2003-2004	
	Parliamentary Resource a/c	Crown Estate Revenue a/c	Parliamentary Resource a/c	Crown Estate Revenue a/c
Commissioners	8	0	8	0
General administration	33	151	31	148
Operating activities	0	194	0	199

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

	2005-2006	2004-2005
£60,000 – £69,999	10	6
£70,000 – £79,999	2	2
£80,000 – £89,999	7	5
£90,000 – £99,999	1	7
£100,000 – £109,999	3	0
£120,000 – £129,999	2	0
£130,000 – £139,999	0	1
£210,000 – £219,999	0	1

6 Staff pensions

Two defined benefit pension schemes operate within The Crown Estate providing retirement and related benefits to all eligible employees based on individual final emoluments. The total pension costs and benefits paid were £1,748,061 in 2005-2006 (£1,316,057 in 2004-2005). The schemes are as follows

a *The Principal Civil Service pension scheme*

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

For 2005-2006, employers' contributions of £1,316,083 were payable to the PCSPS (£902,239 in 2004-2005) at one of four rates in the range 16.2 to 24.6 per cent of pensionable pay, based on salary bands. Rates will remain the same next year, subject to revalorisation of the salary bands. Employer contributions are to be reviewed every four years following a full scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

b *The Crown Estate pension scheme*

The Crown Estate pension scheme is a defined benefit scheme. The assets of the scheme are held separately from those of The Crown Estate, in an independently administered fund. In accordance with FRS17 the current service costs of the scheme are charged to the revenue account. The current service cost and contributions are determined by the Scheme Actuary on the basis of triennial valuations using the projected unit method. At 30 September 2002 the value of the scheme's assets was £9.14 million and the actuarial value of the liabilities exceeded these assets by 41 per cent. The principal actuarial assumptions for the valuation are that the pre-retirement investment yield would in the long term exceed earnings increases by 4.5 per cent per annum and the post-retirement investment yield would exceed pension increases by 2.5 per cent per annum. An actuarial valuation of The Crown Estate pension scheme was undertaken at 30 September 2005, which indicated an increased scheme deficit. These figures, together with an action plan to reduce the deficit, are currently under discussion with the pension scheme trustees.

7 FRS 17 retirement benefits

a *Balance sheet and notes*

The valuation of The Crown Estate pension scheme used for FRS17 disclosures has been based on a fair value of the assets of the scheme measured at 31 March 2006. The principal actuarial assumptions are

	31 March 2004	31 March 2005	31 March 2006
Discount rate	5.5 %	5.5 %	5.0 %
Rate of increase in salaries	4.0 %	4.0 %	4.0 %
Rate of increase to pensions in payment	3.0%	3.0 %	3.0 %
Rate of increase to pensions in deferment	3.0 %	3.0 %	3.0 %
Inflation assumption	3.0 %	3.0 %	3.0 %

For 2005-2006 employer contributions were £431,977 (£413,818 in 2004-2005) and the agreed contribution rate for the coming year is 18.5 percent of pensionable pay.

The assets in The Crown Estate pension scheme and the expected rates of return were

	Long-term rate of return expected at 31 March 2004	Long-term rate of return expected at 31 March 2005	Long-term rate of return expected at 31 March 2006	Value at 31 March 2004 £000	Value at 31 March 2005 £000	Value at 31 March 2006 £000
Equities	7.5 %	7.5 %	7.5 %	6,055	6,850	8,484
Bonds	5.0 %	5.0 %	4.5 %	5,324	6,343	7,464
Other	5.0 %	5.0 %	4.5 %	76	96	19
Total market value of assets				11,455	13,289	15,967
Present value of scheme liabilities				(15,691)	(16,653)	(21,791)
Deficit in scheme				(4,236)	(3,364)	(5,824)
Net pension liability				(4,236)	(3,364)	(5,824)

b Analysis of amount charged to operating surplus

	31 March 2006 £000	31 March 2005 £000
Current service cost	451	535
Past service cost	502	106
Total operating charge	953	641

c Analysis of amount credited to other finance income

	31 March 2006 £000	31 March 2005 £000
Expected return on pension scheme assets	841	737
Interest on pension scheme liabilities	(897)	(863)
Net return	(56)	(126)

d Analysis of amount recognised in statement of total recognised gains and losses (STRGL)

	31 March 2006 £000	31 March 2005 £000
Actual return less expected return on pension scheme assets	1,710	605
Experience gain arising on the scheme liabilities	263	0
Loss arising from changes in assumptions underlying the scheme liabilities	(4,690)	0
Actuarial (loss)/gain recognised in statement of total recognised gains and losses	(2,717)	605

e *Movements in deficit during the year*

	31 March 2006 £000	31 March 2005 £000
Deficit in scheme at beginning of the year	(3,364)	(4,236)
<i>Movement in year</i>		
Current service cost	(451)	(535)
Contributions	1,266	1,034
Past service costs	(502)	(106)
Other finance income	(56)	(126)
Actuarial (loss)/gain	(2,717)	605
Deficit in scheme at the end of the year	(5,824)	(3,364)

f *History of experience gains and losses*

	31 March 2006 £000	31 March 2005 £000
Difference between expected and actual return on scheme assets		
Amount (£000)	1,710	605
percentage of scheme assets	11%	5%
Experience gain on scheme liabilities		
Amount (£000)	263	
percentage of the present value of the scheme liabilities	1%	0 %
Total amount recognised in statement of total recognised gains and losses		
Amount (£000)	(2,717)	605
percentage of the present value of the scheme liabilities	(12%)	4%

8 Recovery of capital expenditure

	2004-2005 £000	2003-2004 £000
Purchase of leaseholds	6,969	6,720
New works and improvements	18,462	16,483
Depreciation of fixed assets	1,656	1,076
	27,087	24,279

9 Financial instruments

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

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

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

10 Parliamentary Resource finance

The Crown Estate Act 1961 provides that monies are provided by Parliament in respect of Commissioners' salaries and the expense of their Office. The total of such expenses chargeable to the resource account for the current year is shown on the face of the revenue account and the detail is reported separately to Parliament as a resource account.

11 Statutory transfers

	2005-2006 £000	2004-2005 £000
Moieties		
Mineral dealings	8,102	7,690
Gilt-edged securities dealings	761	423
To general capital reserve (Note 27)	8,863	8,113

2 Consolidated Fund payment

In accordance with section 1 of the Civil List Act 1952, the revenue surplus is due to the Consolidated Fund. As The Crown Estate is not permitted by statute to borrow, the payment to the Consolidated Fund in respect of the net surplus for the year is agreed with the Treasury taking into account The Crown Estate's short term financing requirements.

13 Tangible assets – investment properties

	Urban Estate	Rural Estate	Marine Estate	Windsor Estate	2005-2006 Total Crown Estate £000	2004-2005 Total Crown Estate £000
	£000	£000	£000	£000		
Valuation at 1 April 2005	3,771,480	572,362	299,997	94,677	4,738,516	4,336,371
Completed properties	3,697,755	572,362	299,997	94,677	4,664,791	4,180,111
Properties under development	73,725	0	0	0	73,725	156,260
Additions						
Transfer from owner occupied properties	13,150	4	0	0	13,154	0
Freeholds	103,091	10,767	0	0	113,858	7,039
Leaseholds	17,961	774	0	0	18,735	18,378
New works	39,032	3,680	283	6,099	49,094	74,744
Other	3,357	1,434	332	12	5,135	3,479
	<u>176,591</u>	<u>16,659</u>	<u>615</u>	<u>6,111</u>	199,976	103,640
Proceeds from disposals						
Transfer to owner occupied properties	(23,375)	(15)	0	0	(23,390)	0
Freeholds	(87,927)	(13,158)	(283)	(907)	(102,275)	(27,002)
Premiums	(33,725)	(735)	(219)	(120)	(34,799)	(133,342)
Other	(1,962)	(66)	(165)	(427)	(2,620)	(6,374)
	<u>(146,989)</u>	<u>(13,974)</u>	<u>(667)</u>	<u>(1,454)</u>	(163,084)	(166,718)
Surplus/(deficit) on valuation	708,530	97,729	(2,702)	(24)	803,533	465,223
Valuation at 31 March 2006	4,509,612	672,776	297,243	99,310	5,578,941	4,738,516
Completed properties	4,469,432	672,776	297,243	99,310	5,538,761	4,664,791
Properties under development	<u>40,180</u>	<u>0</u>	<u>0</u>	<u>0</u>	40,180	73,725

Leasehold properties

The valuation of Crown Estate properties at 31 March 2006 includes £136.1 million (£108.7 million at 31 March 2005) in respect of leasehold properties analysed as follows

	2005-2006 £000	2004-2005 £000
Leaseholds with less than 50 years to run	0	0
Leaseholds with 50 or more years to run	136,100	108,650
	136,100	108,650

The leasehold additions figure includes £17.3 million in respect of leasehold interests on Crown Estate freeholds bought back in the course of the year ended 31 March 2006 (£17.6 million in 2004-2005).

14 Tangible assets – owner occupied properties

	Urban Estate	Rural Estate	Marine Estate	Windsor Estate	2005-2006 Total Crown Estate £000	2004-2005 Total Crown Estate £000
	£000	£000	£000	£000		
Valuation at 1 April 2005	14,119	243	0	59,146	73,508	72,501
Additions						
Transfer from Investment properties	23,375	15	0	0	23,390	0
Improvements	12,856	0	0	0	12,856	26
Other	0	0	0	0	0	0
	36,231	15	0	0	36,246	26
Proceeds from Disposals						
Transfer to Investment properties	(13,150)	(4)	0	0	(13,154)	0
	(13,150)	(4)	0	0	(13,154)	0
Surplus on valuation	8,860	170	0	824	9,854	981
Valuation at 31 March 2006	46,060	424	0	59,970	106,454	73,508

15 Tangible assets - Other fixed assets

	Plant and machinery £000	Office equipment £000	Motor vehicles £000	Total £000
Cost/valuation at 1 April 2005	1,338	10,653	1,574	13,565
Additions	319	2,533	182	3,034
Disposals	(416)	(4,809)	(224)	(5,449)
Gross value at 31 March 2006	1,241	8,377	1,532	11,150
Depreciation at 1 April 2005	1,041	8,203	1,112	10,356
Charge	122	1,346	188	1,656
Disposals	(388)	(4,808)	(243)	(5,439)
Total depreciation at 31 March 2006	775	4,741	1,057	6,573
Net book value				
At 31 March 2006	466	3,636	475	4,577
At 1 April 2005	297	2,450	462	3,209

16 Mortgages and loans

The mortgage advance is secured. Interest is payable quarterly

17 Other investments

Other investments comprise

	2005-2006 £000	2004-2005 £000
Antiques and paintings	4,995	5,042

Antiques and paintings are valued by recognised experts every 3 years on a rolling basis. During 2005-2006 these assets were valued by an independent valuer and held in the balance sheet at their estimated auction value.

18 Stocks and work in progress

Stocks and work in progress comprise

	2005-2006 £000	2004-2005 £000
Stocks for resale	82	93
Stores	93	93
	175	186

19 Debtors

Debtors comprise

	2005-2006 £000	2004-2005 £000
Rent receivable	8,255	8,187
Other debtors	20,970	13,986
Accrued income	8,344	8,652
	37,569	30,825

20 Gilt-edged securities

	2005-2006 Cost £000	2005-2006 Nominal £000	2004-2005 Cost £000	2004-2005 Nominal £000
At 1 April 2005	33,322	33,373	33,752	31,145
Additions	0	0	49,307	48,586
Disposals	0	0	(48,015)	(46,358)
Loss on realisation	0	0	(1,722)	0
	33,322	33,373	33,322	33,373
Write down to lower market value	0	0	(117)	0
Book value at 31 March 2006	33,322	33,373	33,205	33,373

The market value of gilt-edged securities held at 31 March 2006 was £33.6 million (£33.2 million at 31 March 2005).

21 Creditors: due within one year

Creditors and accrued charges comprise

	2005-2006	2004-2005
	£000	£000
Trade creditors	4,859	2,570
Rents received in advance	18,929	12,108
Taxes and social security	6,578	5,392
Other creditors	1,646	2,497
Consolidated Fund	1,000	3,300
Accruals and deferred income	6,795	7,414
	<u>39,807</u>	<u>33,281</u>

22 Subsidiary undertakings

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

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

Fitzgeorge and Fitzjames Management Company Ltd

RM Site Management Ltd

Urbanlease Property Management Company Ltd

23 Capital commitments

At 31 March 2006 The Crown Estate had committed to make capital expenditure of £104 million (£101 million at 31 March 2005) and had authorised additional expenditure of £16 million (£5 million at 31 March 2005).

24 Contingent liabilities

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

25 Related party transactions

During the year, none of the Commissioners, members of the key management staff or other related parties have undertaken any material transactions with The Crown Estate with the exception of Philip Everett, the Deputy Ranger at Windsor Great Park who is employed in a personal capacity through Smiths Gore Chartered Surveyors where he is a salaried partner. Smiths Gore are amongst The Crown Estate's managing agents and as such receive fees for their services. Philip Everett had no involvement in determining either the appointment or remuneration of Smiths Gore in this capacity. During the year Smiths Gore were paid a total in fees of £919,118 (£913,210 in 2004-2005), for services they provided across the whole of The Crown Estate.

26 Third party deposits

At 31 March 2006 The Crown Estate held on deposit on behalf of third parties £14,632,011 (£16,565,278 at 31 March 2005).

27 Reconciliation of movements in reserves

	Pension provision	General capital reserve	Revaluation reserve	Revenue reserve	2005-2006 Total Crown Estate £000
	£000	£000	£000	£000	
Movements in reserves comprise					
Balance 1 April 2005	(3,635)	1,817,355	3,272,065	4,640	5,090,425
Statutory transfers (note 11)	0	8,863	0	0	8,863
Capital recovery					
i Leaseholds	0	6,969	0	0	6,969
ii New works	0	18,462	0	0	18,462
Adjustments to book value of gilt-edged securities	0	117	0	0	117
Other adjustments	0	(1,725)	0	0	(1,725)
Revaluation reserve released on disposal of freehold properties	0	87,915	(87,915)	0	0
Increase in valuation of property portfolio					
i Investment properties	0	0	803,533	0	803,533
ii Owner occupied properties	0	0	9,854	0	9,854
Actuarial (loss)/gain	(2,717)	0	0	0	(2,717)
Net revenue surplus	0	0	0	190,817	190,817
Consolidated Fund payment	0	0	0	(188,000)	(188,000)
Balance at 31 March 2006	(6,352)	1,937,956	3,997,537	7,457	5,936,598
	Pension provision	General capital reserve	Revaluation reserve	Revenue reserve	2004-2005 Total Crown Estate £000
	£000	£000	£000	£000	
Movements in reserves comprise					
Balance 1 April 2004	(4,240)	1,769,907	2,822,027	5,529	4,593,223
Statutory transfers (note 11)	0	8,113	0	0	8,113
Capital recovery					
i Leaseholds	0	6,720	0	0	6,720
ii New works	0	16,483	0	0	16,483
Adjustments to book value of gilt-edged securities	0	1,175	0	0	1,175
Other adjustments	0	(1,209)	0	0	(1,209)
Revaluation reserve released on disposal of freehold properties	0	16,166	(16,166)	0	0
Increase in valuation of property portfolio					
i Investment properties	0	0	465,223	0	465,223
ii Owner occupied properties	0	0	981	0	981
Actuarial (loss)/gain	605	0	0	0	605
Net revenue surplus	0	0	0	184,811	184,811
Consolidated Fund payment	0	0	0	(185,700)	(185,700)
Balance at 31 March 2005	(3,635)	1,817,355	3,272,065	4,640	5,090,425

Ten year record

Based on the financial statements for the years ended 31 March

Revenue	1996-1997	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	*2002-2003	2003-2004	2004-2005	2005-2006
Turnover	154,039	160,076	173,645	187,202	204,885	223,537	230,039	237,779	245,444	252,341
Direct operating costs	(25,452)	(20,732)	(23,064)	(25,130)	(26,661)	(30,176)	(27,320)	(30,201)	(31,953)	(31,613)
Gross surplus	128,587	139,344	150,581	162,072	178,224	193,361	202,719	207,578	213,491	220,728
Administrative expenses	(9,079)	(9,168)	(9,237)	(10,226)	(10,701)	(10,743)	(11,347)	(11,031)	(11,746)	(12,321)
Indirect operating expenses	0	0	0	0	0	0	0	(887)	(2,007)	(1,030)
Net revenue surplus	102,955	113,209	125,774	132,885	147,740	163,339	171,053	176,930	184,811	190,817
Consolidated Fund payment	103,000	113,200	126,000	132,900	147,800	163,500	170,800	173,000	185,700	188,000
Investment and owner occupied properties	2,496,693	2,899,586	3,131,177	3,433,612	3,870,938	4,032,640	4,067,438	4,408,872	4,812,024	5,685,395
Other fixed assets	1,778	1,965	2,565	2,741	2,395	2,133	2,132	2,236	3,209	4,577
Investments	4,027	3,956	3,848	3,856	3,960	3,994	3,976	4,101	5,106	5,059
Current assets	123,720	134,920	188,117	205,450	146,581	167,017	185,371	214,134	306,731	287,198
Current liabilities	(22,807)	(20,998)	(21,239)	(19,137)	(20,190)	(25,956)	(39,817)	(36,120)	(36,645)	(45,631)
Capital and reserves	2,603,411	3,019,429	3,304,468	3,626,522	4,003,684	4,179,828	4,219,100	4,593,223	5,090,425	5,936,598

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

Accounts Direction given by the Treasury

The Treasury, in pursuance of section 2(5) of The Crown Estate Act 1961 hereby gives the following direction.

- 2 The Commissioners shall prepare accounts for the financial year ended 31 March 2002 and subsequent financial years comprising a
 - a foreword
 - b statement of Accounting Officer's responsibilities;
 - c statement of internal control;
 - d revenue account;
 - e statement of total recognised gains and losses;
 - f balance sheet; and
 - g cash flow statement,

including such notes as may be necessary for the purposes referred to in the following paragraphs.

- 3 The accounts shall give a true and fair view of the income and expenditure, total recognised gains and losses, and cash flows for the financial year and of the state of affairs as at the end of the financial year, prepared in accordance with generally accepted accounting practice in the United Kingdom (UK GAAP).
- 4 The application of the accounting and disclosure requirements of the Companies Act, accounting standards and other disclosure requirements is given in Schedule 1 attached.
- 5 The revenue account and balance sheet shall be prepared under the historical cost convention modified by inclusion of
 - property fixed assets at their market value of current cost; and
 - investments at their market value

Under the alternative accounting rules specified in paragraph 31 of Schedule 4 of the Companies Act 1985.

- 6 This direction, which supersedes that dated 27 May 1998, shall be reproduced as an appendix to the accounts.

David Loweth
Head of the Central Accountancy Team,
Her Majesty's Treasury

15 October 2001

Schedule 1

Accounting and disclosure requirements

Companies Act 1985

- 1 The disclosure exemptions permitted by the Companies Act shall not apply to the Commissioners unless specifically approved by the Treasury.
- 2 The Companies Act required certain information to be disclosed in the Directors' Report. To the extent that it is appropriate, information relating to the Commissioners shall be contained in the Foreword, which shall be signed by the Accounting Officer and dated.
- 3 When preparing its Revenue Account, the Commissioners shall have regard to the profit and loss account format 2 prescribed in schedule 4 to the Companies Act.
- 4 When preparing its Balance Sheet, the Commissioners shall have regard to the balance sheet format 1 prescribed in schedule 4 to the Companies Act. The balance sheet totals shall be struck at 'Total Assets less current liabilities'; the balance sheet shall be signed by the Accounting Officer and dated.
- 5 The Commissioners are not required to prepare the historical cost information described in paragraph 33(3) of Schedule 4 to the Companies Act.

Accounting Standards

- 6 Historical cost profits and losses as described in FRS 3 do not have to be shown.

Schedule 2

Additional disclosure requirements

- 1 The Foreword shall, inter alia
 - a Include background information about The Crown Estate and the duties of the Commissioners; and
 - b State that the accounts have been prepared in accordance with a direction given by the Treasury in pursuance of section 2(5) of The Crown Estate Act 1961.
- 2 The notes to the accounts shall, inter alia
 - a Describe, under 'accounting policies' the statutory provisions contained in section 2 of The Crown Estate Act 1961; and
 - b Include an analysis of income, expenditure and gross surplus by estate sector.

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