

Executive management is accountable to the Board for establishing and monitoring the system of internal controls and for providing assurance to the Board that it has done so. All employees have responsibility for internal controls as part of their accountability for achieving their objectives.

Examples of types of controls in place throughout the year are:

- Cultural and ethical behaviour – staff integrity, staff handbook (including The Code of Ethics), shared corporate values and beliefs
- Policies and procedures – in place at all level of the organisation (e.g. risk management guidelines etc.)
- Financial targets and objectives – balanced scorecard, personal scorecards, budget monitoring, investment appraisals etc.
- Structural – business planning, reporting lines, delegated authority limits, approval lines, roles and responsibilities etc.

The Board take assurance on the effectiveness of internal controls through:

- controls designed in systems and processes;
- management review and committee structures;
- reports from internal and external auditors and other external independent sources.

This assurance process is supported by a process of certified internal control statements issued by directors on their areas of operation to the chief executive. The Board in turn takes assurance from an internal control statement issued annually by the chief executive.

For the year 2012–13 there were no material failures in internal control nor any ministerial direction on any issues.

The Crown Estate has in place various robust and specific arrangements to ensure information security, which are in line with Cabinet Office guidance and ISO 27001. The business maintained ISO 27001 certification throughout the year. Other controls in place include arrangements for:

- Governance, risk management and compliance;
- Protective marking and asset control;
- Data protection;
- Personnel security;
- Information technology;
- Physical security;
- Counter-terrorism; and
- Business security.

Governance report continued

Principal corporate risks and opportunities

The principal corporate risks and opportunities faced by The Crown Estate are shown in the table below. They are largely related to our portfolio of assets and are typical of a real estate organisation. These are not the only risks associated with The Crown Estate.

Material issues affecting our business (see page 15).

-  Sustained and profitable growth
-  Optimisation of the portfolio for long-term total return
-  Attraction, nurturing and retention of best talent
-  Attraction of suitable commercial partners and investors
-  Health and safety

-  Maintaining effective stewardship
-  Reputation
-  Successful placemaking and creating amenity value
-  Effect of climate change
-  Availability of natural resources
-  Customer focus
-  Organisational and management structure
-  Health of UK economy
-  Government policy

Principal corporate risks and opportunities

| Material issues | Risk/opportunity | Impact | Principal mitigations | Residual risk ratings |
|--|--|---|---|-----------------------|
|     | <p>1 – Investment performance risks</p> <p>(a) Opportunities or threats presented by the global economic uncertainty are not capitalised on or mitigated against, resulting in capital or revenue returns not being optimised.</p> <p>(b) Underperformance compared to industry due to limitations under the Crown Estate Act 1961 (limited availability/timing of access to funds), restricting investment activity and preventing opportunity/ability to optimise portfolios.</p> <p>(c) Ineffective investment strategy or poor execution of investment strategy (i.e. through sub-optimal decision-making) impacts on ability to meet revenue targets or has adverse impact on portfolio valuation.</p> <p>(d) Inability to attract and retain commercial partners and investors, should there be seen to be a decline in the attractiveness of our core portfolio (due to health of UK economy), restricting our ability to obtain sufficient working capital funding to reinvest in the estate.</p> | <p>Revenue targets are not achieved or consistent decline in capital growth compared to the market.</p> | <p>Board oversight and approval of investment strategy with formal review of implementation and performance monitoring.</p> <p>Economic and market analysis/monitoring.</p> <p>Formal investment committees with responsibility for scrutiny over proposed investment decisions (subject to delegated authorities) and investment appraisal process.</p> <p>Quarterly investment management board and consideration of external market/real estate views.</p> <p>Focused asset management with appropriate due diligence.</p> <p>Portfolio diversification and monitoring.</p> <p>Exploration of joint venture investments and operational joint venture working group.</p> | <p>Medium risk</p> |

| Material issues | Risk/opportunity | Impact | Principal mitigations | Residual risk ratings |
|---|--|---|---|-----------------------|
|     | <p>2 – Development/programme risks</p> <p>(a) Delays in completion of a major development or a number of developments (land-based or offshore) results in adverse impact on revenue and/or capital growth due to development letting exposure, overruns and/or supplier/sub-contractor failure.</p> <p>(b) Inability to secure timely planning permission for key developments due to impact of the Localism Bill and planning department resource constraints.</p> <p>(c) Delay in meeting objectives of our offshore wind programme as a result of inability of our partners to secure capital funding high cost of technology/developing supply chain.</p> | <p>Development programme delays impacting reputation, resulting in financial loss or reduction in future revenue stream.</p> | <p>Development and Project Management Governance Framework.</p> <p>Regular development monitoring through project control groups.</p> <p>Third party due diligence and continuous monitoring of partner financial health.</p> <p>Robust evaluation of development business cases.</p> <p>Liaison with key stakeholders.</p> <p>Offshore wind programme board representation and strategic workstreams in place.</p> | Medium risk |
|       | <p>3 – People risks</p> <p>(a) Inability to reward, retain or recruit right staff with necessary industry experience to drive strong business performance, resulting in under-performance across key areas of the business.</p> <p>(b) Key staff are lost without adequate succession planning and this impacts our ability to meet our corporate objectives.</p> | <p>Loss of key talent or inability to attract staff with the right experience impacts adversely on future success.</p> | <p>Strong recruitment processes.</p> <p>Succession planning framework in place.</p> <p>Effective learning and development plan in place across organisation.</p> <p>Remuneration committee support and liaison with the Treasury.</p> | Medium risk |
|  | <p>4 – Health and safety risks</p> <p>(a) A significant health and safety incident on our estate results in serious harm to a member of staff, supplier, tenant or other stakeholder.</p> | <p>Loss of reputation, penalties/fines and/or legal action against the organisation or members of staff.</p> | <p>Development and roll-out of management systems accredited to OHSAS 18001.</p> <p>Comprehensive regular reporting to the Board.</p> <p>Health and safety training and programme of compliance reviews.</p> <p>Incident reporting hotline and promotion of health and safety culture.</p> | Medium risk |
|      | <p>5 – Stakeholder risks</p> <p>(a) Failure to assess and evaluate the expectations of customers, tenants and wider stakeholders adversely affects our reputation.</p> <p>(b) Missed opportunity to be recognised for positive contributions made (e.g. successful placemaking and creating sustainable developments) resulting in value not being maximised.</p> | <p>Adverse publicity from tenants and other key stakeholders results in reputational damage.</p> <p>Estate value not maximised/recognised by external stakeholders.</p> | <p>Customer focus programme.</p> <p>Market research.</p> <p>Processes in place both within the organisation, and those that act on our behalf (e.g. managing agents) to resolve customer concerns.</p> <p>Achievement of sustainability targets and objectives.</p> <p>Total contribution measurement and reporting.</p> | Low risk |

Governance report continued

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|---|--|---|--|-----------------------|
|  | <p>6 – Sustainability risks</p> <p>(a) Failure to comply with current and anticipated social and environmental legislation resulting in fines and/or other sanctions and/or loss of reputation.</p> <p>(b) Loss of value from our portfolio because of lack of strategic planning in decisions and management of portfolios, not taking account of social and environmental factors including climate change. Similarly, opportunity to use/extract resources available on our estate (land-based and offshore) not effectively utilised.</p> <p>(d) Current organisational and management structure does not evolve with business and is not sustainable to drive business over longer term.</p> | <p>Compliance failure resulting in negative publicity and possible fines or penalties.</p> <p>Failure to grow business in the long term, resulting in decline in overall portfolio valuation and revenue.</p> | <p>Approved sustainable business strategy in place.</p> <p>Monitoring of new legislation and requirements.</p> <p>Sustainability considered in all decisions.</p> <p>Sustainability workstream focus group and sustainability committee oversight.</p> <p>Developments/refurbishments built to a high sustainability standard (e.g. BREEAM) to meet or exceed EPC standards.</p> <p>Offshore wind programme with defined objectives.</p> <p>Ongoing review of governance arrangements.</p> | Low risk |
|  | <p>7 – Policy risks</p> <p>Failure to anticipate and be responsive to changes to government policy that could impact our underlying business and ability to deliver primary objectives.</p> | <p>Failure to meet our targets and corporate objectives.</p> | <p>Regular liaison with the Treasury.</p> <p>Ongoing review of upcoming legislative/policy changes on our business.</p> <p>Strong working relationships with stakeholders across Government.</p> <p>Active participation in key policy reviews openly communicated through corporate channels.</p> | Low risk |

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

The Board is 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 statements of accounts in the form and on the basis determined by the Treasury. The financial statements 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:

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

The Treasury has appointed the chief executive and second commissioner as the accounting officer for The Crown Estate. Her responsibilities as accounting officer, including her responsibility for the propriety and regularity of the public finances and for the keeping of proper records, are set out in 'Managing Public Money'.

The governance report, together with, the material issues we have identified, set out the principal issues and opportunities facing our business and the processes we have in place to manage these.

In making my statement as accounting officer, in line with 'Managing Public Money', it is my judgement that the Board has handled these issues successfully and that they have been supported by an appropriate governance framework.

There will inevitably be challenges in the years ahead, but I am confident that The Crown Estate has effective governance mechanisms in place to steer a course through these. I envisage that some of the priorities going forward that the Board will need to consider will include:

- any potential changes in economic climate or interest rates that impact on the property market;
- ability to attract and retain commercial partners and investors and the impact of any change in the relative attractiveness of our core portfolio; and
- consequence of renewable energy policy and its impact on the market.



Alison Nimmo CBE
Chief executive
7 June 2013