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# DRAFT Memorandum of Understanding – Financial Framework

**[month] [year]**

## Contents

## 1 Introduction and guiding principles

### Introduction

1.1 The Crown Estate Act 1961 “the Act”, (as amended by the Crown Estate Act 2025) permits The Crown Estate (“TCE”) to borrow, subject to HM Treasury (“HMT” or “the Treasury”) consent. This Memorandum of Understanding (the “MoU”) sets out the borrowing principles for TCE. This MoU sits underneath and is governed by The Crown Estate Framework Document (“Framework Document”), which takes precedence. Should there be a discrepancy or contradiction or a lack of clarity within or between these documents, TCE should raise any issues with HMT to seek clarification.

1.2 The MoU sets out:

- the borrowing framework;
- the relevant governance arrangements; and
- reporting requirements applicable to TCE.

1.3 This MoU will be kept under review by both parties. Any amendment, update or replacement of any provision of this MoU must be consistent with both the Act and the Framework Document (the latter as may be amended, updated or replaced from this date). In particular neither the Treasury nor TCE will act in any way contrary to the principles embedded through the Act or other relevant statutes.

1.4 Any changes would carry a minimum notice period of twelve months and would not apply retrospectively to existing borrowing, unless agreed between the parties.

### Guiding principles of the Borrowing Framework

1.5 TCE is a body established in perpetuity under The Crown Estate Act 1961 as a trust estate, independent of government and the Monarch, who are its dual beneficiaries. It is overseen by its Board of Commissioners, which is independent of HMT.

1.6 As a non-financial public corporation, TCE operates in a manner consistent with the requirements of Managing Public Money (“MPM”). Additionally, as a non-financial public corporation, both the use and repayment of borrowed funds by TCE impacts on public sector debt aggregates, which the government manages to ensure the long-term sustainability of public finances.

1.7 The governance arrangements set out in section 3 provide a mechanism to give TCE the certainty it requires to enter into investment commitments necessary for its long-term business planning, whilst ensuring that TCE debt and borrowing levels are managed within the wider requirements of fiscal sustainability.

1.8 Beyond agreeing the level of any additional borrowing available to TCE, any controls that are introduced as part of a borrowing agreement will be broadly consistent with those that private sector creditors might require.

1.9 To facilitate the effective and efficient working of this borrowing framework, HMT and TCE are committed to regular dialogue and a constructive and transparent relationship, consistent with the principles underpinning the relationship between both parties as laid out in the overarching Framework Document.

## 2 Borrowing Framework

2.1 The Act (as a result of the amendments made by the 2025 Act) allows for TCE to borrow money with the consent of the Treasury. The Act allows TCE to access borrowing from voted loans, the National Loans Fund ("NLF"), or otherwise on a case-by-case basis. The parties have no current expectation that TCE will access private sources of borrowing, other than that already permitted prior to the 2025 Act and as set out in paragraph 22.2 of the Framework Document.

2.2 In exercising their consent HMT will not act in any way contrary to the principles embedded through the Act or other relevant statutes. This includes committing to ensure that once funding is agreed, a sufficient line of undrawn credit is available at all times to TCE to enable it to meet the commitments and representations that TCE has/will make on the basis of the agreed level of funding.

2.3 Consistent with the provisions in the Act, TCE will not enter into any new or additional commitments that would rely on access to borrowing in excess of that already agreed by HMT. Where TCE requires higher borrowing limits to enter into such new or additional commitments, it will seek HMT agreement through the processes set out in this document.

### Assumed credit rating

2.4 Although there are no true equivalents for TCE, TCE's credit rating would likely be viewed by debt investors as strong investment grade, particularly in light of the following factors:

- Large, high-quality asset base;
- Diversity of the asset portfolio providing resilience in overall income; and
- Strong liquidity.

2.5 TCE's credit rating will therefore be assumed to be assessed as strong investment grade, and interest rates on debt will reflect this. Unless there is evidence to the contrary, this MoU does not impose any requirement on TCE to obtain an external credit rating due to the unnecessary costs this would impose.

2.6 The borrowing envisaged under this agreement is the equivalent of 'corporate borrowing' against the value of the business itself, and is not specific or to be secured against individual assets. This is because HMT already have security over the future earnings of TCE in accordance with the provisions within the Act. In the event of TCE not meeting its obligations under individual loan agreements then corrective actions will be taken in accordance with paragraph 3.3.

## Use of proceeds

2.7 All borrowing by The Crown Estate Commissioners will be connected to the purpose of its statutory function and to fulfilling its statutory duty to maintain and enhance the Estate and the revenues obtained from it.

2.8 Proceeds will be used in ways which are consistent with the business plans and strategy that are routinely shared with HMT in accordance with the Framework Document.

## Criteria considered for all loan agreements

2.9 The approach to borrowing for TCE should be consistent with other low-risk peers.

2.10 The following criteria will be agreed as part of all loan agreements:

- Currency – expected to be Pounds Sterling (GBP) only unless by explicit agreement
- Permissible loan types – as ordinarily used by comparable private sector entities
- Credit rating of The Crown Estate – assumed as strong investment grade unless any evidence to the contrary, at which point external validation would be sought by the parties
- Interest – fixed or floating interest permitted; rates to be agreed between the parties and benchmarked to external market rates for similar scale borrowings for corporates with equivalent credit ratings. To be subject to appropriate external validation where necessary

- Interest payments and principal repayments – payable semi-annually in arrears (unless by alternative arrangement with HMT) or otherwise agreed as part of individual loan agreements

- Early repayment – permitted if requested by TCE and subject to any conditions within individual loan agreements.

### Revolving Cashflow Facility (RCF)

2.11 Consistent with the principles set out in this document, TCE can request a RCF facility, to be available from the National Loans Fund. Once agreed, HMT would maintain this facility, up to the agreed amount, to enable TCE to meet any commitments that rely upon it. This RCF enables mitigation of short-term liquidity / refinancing risks and avoid the need for TCE to maintain an excessive cash buffer. Rates will reflect TCE's assumed credit rating, duration and appropriate market rates. This would be separate from debt and not subject to the policy parameters as set out below.

2.12 The level of the RCF facility would be subject to regular review between the parties as set out in paras 1.3 and 1.4 above.

### Reference documentation

2.13 The Crown Estate Act 1961 (as amended by the Crown Estate Act 2025); Framework Document with HMT and other formalised agreements with HMT, as appropriate.

## 3 Governance

### Target borrowing level ('operating parameters')

3.1 Loan to value ratio (defined as the ratio of net debt to asset value, 'NDTV') to target a sustainable range and not to exceed 25%. Values will be based on the total gross audited asset value of the enterprise as reported in the annual report and accounts (disclosed as 'long term assets' within balance sheet in ARA).

3.2 The NDTV ratio will be subject to market fluctuations in gross asset value, and so levels will be reviewed with HM Treasury annually and additionally as required.

3.3 In the normal course of business the parties expect TCE to operate within a limit of up to 20% NDTV and to make all payments of interest and principal in line with the terms of the loan agreements. If NDTV levels exceed 25% (or are projected to within a 3-year period) or if TCE defaults on any payments of interest or principal then TCE shall agree with HMT any appropriate corrective actions deemed necessary to return to targeted limits and/or remedy any default. These may include reduction in planned expenditure, disposal of assets, or a (temporary or on-going) change to the level of the statutory transfer detailed in paragraph [27.2] of the Framework Document.

### Borrowing Limit ('policy parameter')

3.4 The level of TCE debt impacts on the public sector debt aggregates. As a result, any additional borrowing requests from TCE will need to be considered by the Treasury in that context.

3.5 As set out in paragraph 2.2 and 2.8, where TCE identifies that there are new commitments which require additional borrowing capacity in excess of that already agreed with HMT, it may request such increase in its line of credit. This will need to be supported by a business case, which includes analysis on the expected impact on (1) future revenue streams and (2) NDTV.

3.6 As set out in paragraph 2.3, in exercising their consent the Treasury will not act in any way contrary to the principles embedded through the Act or other relevant statutes. This includes committing to ensure that once funding is agreed a sufficient line of undrawn credit is available at all times to TCE to enable it to meet the commitments and representations that TCE has/will make on the basis of the agreed level of funding.

3.7 To maximise certainty for both parties, as part of its annual business planning or strategic review processes, TCE will share the following information with HMT:

- Forecasts for projected levels of spend across each of the five future years (or whatever time period is relevant to the Government's fiscal rules);
- Projections for TCE debt levels across these years; and
- Any material sensitivity analysis that impacts on those projections – for example, any assumed asset sales during that time period.

3.6 This will be in addition to any information provided in line with the Framework Document.

3.7 In return, HMT will then inform TCE whether it agrees in principle to those borrowing proposals, or if there are likely to be any constraints on those funding requirements, so if necessary TCE can revisit its business planning. For the avoidance of doubt, this provision relates to new funding and not the support required for existing (but undrawn) commitments as laid out in paragraphs 2.2 and 2.13 above.

3.8 Other affordability measures will be monitored by Commissioners and reported to HMT as part of normal performance reporting under the Framework Document. These will not form an explicit restriction, but HMT will expect The Crown Estate to inform the TOA of any matters of concern in a timely manner.

3.9 Similarly, HMT will inform TCE in a timely manner if there is any change to the fiscal context which may necessitate a change to any future borrowing plans that have previously been agreed, subject to the protections set out in paragraph 2.3.

## 4 Reporting

4.1 TCE will regularly monitor and report on its debt position. It will share updates with HMT as part of regular performance updates as set out in the Framework Document, and report externally at least once a year through the laying of its Annual Accounts with Parliament. These Accounts will include disclosure of borrowing positions and facilities in line with normal accounting standards.

4.2 Semi-annual management reporting will include an assessment of Net Debt to Value and affordability criteria, including projections of future spend and capital commitments.