



# DUCHY *of* LANCASTER



Report and accounts of the Duchy of Lancaster for  
the year ended 31 March 2015

TESCO *express*



## Our Aim:

To provide an income for Her Majesty the Queen as Duke of Lancaster ensuring that the capital value of the Duchy estates is protected for the benefit of future Dukes of Lancaster.

Lord Shuttleworth KCVO, Lord Lieutenant of Lancashire since 1996, retired as Chairman of the Duchy Council at the end of 2014. A member of the Council since 1998 and Chairman since January 2006, he has seen significant changes to the operational structure of the Duchy during his tenure, while ensuring the preservation of its historic values and principles. Much of the Duchy's growth and development over recent years is due to his stewardship, wisdom and guidance. All members of the Duchy Council, Duchy staff and Duchy tenants would like to formally record their thanks for his outstanding record of service.



*I am delighted to serve as Chairman of the Duchy Council following the retirement of our Chairman for 9 years, Charles Shuttleworth. His tireless work in protecting, preserving and enhancing our portfolio of land and property assets has set the standard for the future. I look forward to working with Council and staff to take this work forward in the years ahead.*

**Mark Hudson**  
Chairman  
Duchy Council



DUCHY *of* LANCASTER

# Annual Report

Report and accounts of the Duchy of Lancaster  
for the year ended 31 March 2015





The Whitewell estate, Lancashire



# Introduction

The Duchy of Lancaster is a private estate owned by Her Majesty the Queen as Duke of Lancaster. The estate covers 18,433 hectares of land divided into five Rural Surveys (Lancashire, Yorkshire, Cheshire, Staffordshire and Southern), Foreshore and Minerals. It also includes the Urban Survey which is made up of a number of office, retail and industrial properties across the country.

The inheritance of the Duchy of Lancaster is 750 years old this year.

## History

In 1265, King Henry III gifted to his son Edmund the baronial lands of Simon de Montfort. A year later, he added the estate of Robert Ferrers, Earl of Derby and then the *'honour, county, town and castle of Lancaster'*, giving Edmund the new title of Earl of Lancaster.

In 1267, Edmund also received from his father the manor of Newcastle-under-Lyme in Staffordshire, together with lands and estates in both Yorkshire and Lancashire. This substantial inheritance was further added to by Edmund's mother, Eleanor of Provence, who bestowed on him the manor of the Savoy in 1284.

Edmund's inheritance passed to his son Edward III who, in 1351, conferred the title of Duke of Lancaster on the celebrated diplomat and soldier, Henry Grosmont *'in recognition of (his) astonishing deeds of prowess and feats of arms'*.

Edward III also raised Lancaster to a County Palatine for the duration of Henry's life. Palatinate powers were devolved royal powers for use in regions where central government was difficult. These devolved powers gave the Duke of Lancaster administrative control of the law courts and the right to appoint the sheriff, judges, justices of the peace and other senior officials serving the County.

When Henry Grosmont died in 1361, the inheritance became part of his daughter Blanche's dowry. She had married one of Edward III's sons, John of Gaunt, in 1359.

John was made 2nd Duke of Lancaster in 1362 and persuaded his father Edward III to grant the Palatinate powers to him and his heirs permanently.

When John died in 1399, King Richard II confiscated the Lancaster inheritance and banished John's son, Henry Bolingbroke, from England for life. Within the year, Henry Bolingbroke returned from exile, raised an army and forced Richard to abdicate. He ascended to the throne as Henry IV in October 1399.

One of Henry's first acts as King was to stipulate the conditions in which the Lancaster inheritance should be held, specifying that it should be held separately from all other Crown possessions, and should descend through the Monarchy as a private estate.

Some 300 years later, under the Crown Lands Act 1702, it was decreed that the Sovereign should only receive income and not capital from the Duchy.

And so it remains to this day.

## Guiding principles

The Duchy of Lancaster is a historic organisation with a keen eye on the future. Our role is to ensure an appropriate balance between long-term commitment to our tenants and the communities in which we operate and the long-term sustainability of our land and property assets. This means acting responsibly, investing prudently and delivering effectively on clear commercial objectives.

As a major owner of agricultural land and many areas of outstanding natural beauty, the Duchy takes great care to ensure environmental sustainability across the estates. The partnership between the Duchy and its agricultural tenants extends beyond the contractual and includes experienced support and advice. Land use is monitored and investment in new technologies and energy sources actively encouraged.

Our commercial strategy is to continue to deliver revenue

## Introduction continued

growth while working with our tenant communities and respecting at all times our heritage and our values. It is a strategy which is continually reviewed and updated in response to the cyclical nature of markets so that we maintain a sustainable business for the long term.

The Duchy includes many historic properties, including ten castles from Lancaster in the North to Ogmere in the South. Most of these are leased or entrusted to guardians responsible for managing visitor access. The Duchy maintains an active watching brief over the maintenance and restoration of these historic monuments as appropriate.

The Estates include a number of residential development sites. These are subject to the Duchy's own Design Code to ensure, wherever possible, the highest standards of construction and specification are achieved.

Working with tenants and partners across England and Wales, the Duchy Council is happy to support diversification and innovation as a means of safeguarding the stability and long-term sustainability of the estate as a whole.

### The Duchy Today

Seven hundred and fifty years on, the Duchy of Lancaster remains largely the same in terms of its land and historic property holdings. However, as a modern landed estate, it also includes a diverse portfolio of office, retail and industrial property, as well as development assets.

The management of the property portfolio, financial investments and the discharge of the Duchy's administrative duties associated with its Palatinate rights and responsibilities in Lancashire, Merseyside and Greater Manchester is overseen by the Chancellor of the Duchy of Lancaster and the Duchy Council, although the present Duke retains a keen interest. The net revenue of the estate is paid to the Keeper of the Privy Purse for Her Majesty the Queen. The Duchy is not subject to corporation tax because it is not a separate legal entity for tax purposes. However, Her Majesty the Queen voluntarily pays tax on the income which She receives from the Duchy.



*Lancaster Castle, open to the public since 2012*

# The Surveys

## Cheshire

The Cheshire Survey is comprised mainly of a large rural estate to the east of Crewe.

The Crewe estate is centred on the historic properties of Crewe Hall and Crewe Hall Farm, where the Duchy has created a thriving and highly sought-after office location in converted agricultural buildings. The estate extends to 1,380 hectares and stretches from the edge of Crewe itself to the M6 at Junction 16.

There are 10 main farms, which are involved in dairy, arable and livestock production, as well as equestrian businesses and woodlands. The estate also includes a residential lettings portfolio of 70 rural cottages and farmhouses, as well as a roadside Service Area and a number of potential future development opportunities.

Also in the Cheshire Survey is a small estate at Marbury, on the Shropshire border, which consists of a single dairy farm and five residential properties let to local people.

## Staffordshire

The Staffordshire Survey covers 2,995 hectares concentrated largely around the village of Needwood.

Needwood Forest was originally a large area of ancient woodland with extensive stocks of wolf, wild boar and

fallow deer until, in 1803, an Act of Parliament allowed the Forestry Commissioners to enclose land and deforest it. Much deforestation took place between 1805 and 1811 as the area became subject to the new practice of enclosure of common lands for the improvement of agriculture.

The Survey today comprises a mix of arable, dairy, sheep and beef farms, with some residential and commercial property. There are currently over 60 let houses on the estate, as well as a diverse mix of commercial activities, including a saw mill, equestrian centres, offices and a private airfield.

The Duchy is carrying out a programme of works to improve the quality of the existing 500 hectares of woodland, parts of which are open to the public. Areas of the estate also form part of the National Forest designation and have been planted with new woodland in conjunction with the National Forest.

Areas of historic interest include Tutbury Castle where Mary Queen of Scots was briefly imprisoned. Tutbury Castle is open to the public during the summer and is available for private events, school parties and weddings throughout the year.



*Tutbury Castle, Needwood*

## The Surveys continued

### Lancashire

The Duchy of Lancaster has ancient and extensive associations with the County Palatine of Lancaster, with the historic Lancaster Castle at its heart. Restoration work is currently underway on the fabric of this Grade I Listed Building so that it can be opened up to the public, following the closure of Lancaster Castle as a prison in 2011.

The Lancashire Survey extends to 3,849 hectares comprising four rural estates: Myerscough, Wyreside, Salwick and Whitewell. Myerscough, north of Preston, has been owned by the Duchy of Lancaster since the 13th century. Wyreside, Salwick and Whitewell were added to the portfolio more recently during the 20th century.

Whitewell is the largest estate by area (2,400 hectares) and lies within the Forest of Bowland, an Area of Outstanding Natural Beauty. The 18th century hostelry, the Inn at Whitewell, lies on the estate, and the Duchy's first holiday cottage in Lancashire - built at Root Farm, Dunsop Bridge in 2014 - is proving very popular with guests.

The Lancashire estates include 20 equipped livestock-based farms (mainly dairy) as well as over 50 houses and cottages. Tenant businesses based across the Survey range from a farm shop/café, horse liverys, commercial fisheries, caravan parks, farmhouse B&Bs, and pet-food distribution.

### Yorkshire

The Yorkshire Survey covers 6,792 hectares across four main estates: Goathland, Cloughton, Pickering and Pontefract.

Goathland, which covers approximately 4,100 hectares, includes a large area of internationally important heather moorland, the majority of which is a Site of Special Scientific Interest (SSSI). Upland grazing and grouse shooting form the majority of the tenanted interests. The moors have also been featured in several films and television productions, including the Harry Potter feature films and the TV series Heartbeat.



*Root Farm holiday cottage*

Arable land, extending to 1,000 hectares on the beautiful Yorkshire coast, makes up the majority of the Cloughton estate. Properties on the estate include pubs, a restaurant and residential properties. The Duchy has recently taken the first steps in the creation of a new model farm on the Cloughton Fields site, planning for which took place throughout 2014/15 with construction having started in March 2015. Scheduled to complete in November 2015, this new farm will house one of the Duchy's two large agricultural tenants at Cloughton and will, over time, move the agricultural operation out of the village centre.

The Pickering estate is home to a mix of arable and livestock farming, together with a large area of native broadleaf forestry.

The Pontefract estate lies on the edge of the town and consists of a single large farm and several commercial properties.

Historic properties on the Yorkshire Survey include Pickering and Pontefract Castles, both of which are open to the public.

The Scalby Lodge holiday cottages on the hills above Scarborough continue to attract strong interest. Now being managed by the Duchy in-house, the development was short-listed for a Yorkshire RICS design award earlier in the year.



# The Surveys continued

## Southern

The Southern Survey was created in 2015 and comprises lands previously managed alongside the Cheshire estate and land recently acquired in the East. The Survey includes lands in Northamptonshire, South Wales, the Peak District and Lincolnshire and extends to a total of 3,382 hectares.

The Northamptonshire estate is 1,950 hectares in size is centred on Higham Ferrers and Wollaston, and consists mainly of arable farms. Higham Ferrers was part of the original inheritance given by Henry III to his son Edmund in 1266. The estate was subsequently extended by the purchase of two additional farms. It also includes an 18-hole golf course and a Vocational Skills Academy. This was developed jointly by the Duchy and Moulton College and offers education in plumbing and bricklaying.

In South Wales, the Ogmere estate consists of more than 1,500 hectares and includes an active limestone quarry, a Castle and a golf course.

At Castleton in the Peak District, the Duchy owns 114 hectares of grazing land as well as Peveril Castle, the Peak Cavern tourist attraction, and historic mineral rights under a wide area.

The Lincolnshire estate currently consists of 777 hectares of prime agricultural farmland. Over the course of the last year, this has increased through the acquisition of land at Bicker. This acquisition is part of a Duchy policy to diversify its agricultural holdings by investing in high quality cereal and root crop farms in the Lincolnshire area. All the farms are operated by significant potato and salad/root crop producers. The current Survey is based around the town of Donington, to the north of Spalding, and comprises Park Farm, Donington, Quadring Fen Farm, Quadring and Drayton House Farm, Swineshead. The Survey also includes the historic Bolingbroke Castle and a large area of tidal mudflats in Lincolnshire.

## Urban

The Duchy of Lancaster has a substantial portfolio of office, retail and industrial properties in England and Wales. These assets provide a significant proportion of the Duchy's annual income.

The Savoy estate in London is the largest asset in the Urban Survey, comprising principally office and retail accommodation. It is bounded to the north and south by the Strand and Embankment respectively and to the west and east by the Savoy Hotel and Somerset House. It is well placed to take advantage of the strength of the mid-town commercial market and the proposed public realm improvements being proposed by the Northbank Business Improvement District. The estate also includes The Queen's Chapel of the Savoy.

The Harrogate estate in Yorkshire is another significant asset and includes a care home, a number of residential properties, a hotel and a school, as well as The Stray, a 103-hectare expanse of open space. The residential element in Harrogate includes a converted 18th century villa (Granville House) and a new apartment complex (Villiers House), both of which are fully let following completion of the development in 2014.



*Wellington House, London*

## The Surveys continued

The Duchy also holds a portfolio of warehouse/industrial properties particularly focussed on major conurbations including Greater London, the Midlands and the North West. During the last twelve months, further properties have been acquired in Liverpool and Blackburn.

The Urban Survey is continually appraised for asset management opportunities to enhance income.

### Foreshore

The Foreshore Survey extends to approximately 36,000 hectares, from the river Mersey in the south to Barrow-in-Furness in the north. Part of the Duchy's ancient inheritance, it reflects the former boundary of the County Palatine.

Including a wide diversity of agricultural, commercial and miscellaneous property, the Foreshore Survey includes over 80 individual lettings. It has become an increasingly important estate in its own right for the Duchy in recent years, providing a growing and ever more dynamic source of revenue, primarily through dock developments, outfalls, pipelines and cables, and income from macro offshore renewable energy projects.



*Morecambe Bay, Lancashire*

### Minerals

The Duchy mineral portfolio extends from South Wales to North Yorkshire and consists of limestone quarries and sandstone quarries, which supply material to the UK construction sector, as well as a mine supplying gypsum to the cement industry. In addition to these active quarries, the Duchy benefits from extensive manorial mineral interests beneath the historic land holdings.

The portfolio continued to see improved performance during 2014 through the general improvement in construction output. The performance was helped by the commencement of work on the Liverpool 2 Project where the Duchy has benefitted from the project's use of dredged material for infill purposes. The overall performance improved by 46%, largely due to the Liverpool 2 Project; underlying performance improved by 17%.

This year also saw alabaster from the Duchy's Fauld Mine in Staffordshire being used for Richard III's final resting place - and the altar upon which his funeral service was celebrated - in Leicester Cathedral.



*Alabaster Altar, Leicester Cathedral*



# Investment Highlights

## Residential Property

The Duchy of Lancaster's new residential development in Harrogate completed in September 2014. All 13 apartments at the £2m development were let less than six months after completion.

The Ripon Road development includes four apartments within a refurbished Victorian villa, Granville House, and a further nine apartments in a sympathetically designed new build property, Villiers House. The buildings are named in honour of 19th century Duchy Chancellors, Sir Granville George Leveson-Gower and George Villiers, who strongly championed the growth of Harrogate as a fashionable spa town.

Both buildings have been finished to a high quality specification and benefit from landscaped grounds and allocated parking spaces. Each has strong green credentials, with high performance double glazing, high efficiency and low emission boilers, as well as LED lighting.

The development generated a high level of interest from the outset, with a strong demand for viewings while construction work was still ongoing.



*Granville House, Ripon Road, Harrogate*

## Sustainability projects

Working with Bennett Equine at Woodhouse Farm on our Needwood Estate, the Duchy has this year completed the installation of a £130,000 eco-friendly heating system. The innovative biomass system provides heating and hot water for equine recovery in one of the UK's leading rehabilitation centres for horses. The new biomass system also provides heating and hot water to the residential farmhouse.

As open fires were the only source of heating and hot water to the property previously, the woodchip biomass boiler system will both help the environment and deliver significant financial savings. The system is a first of its kind for the Duchy, and was installed following extensive research into its performance and sustainability.

The new system uses existing woodchip from another Duchy tenant, UPM Tilhill, which occupies the nearby Needwood sawmill site.

In accordance with our sustainability strategy, green energy sources are actively encouraged across all our properties and a number of tenants are now using green systems such as ground source heat pumps, solar PV and rainwater harvesting.

## Investment Highlights continued

### Commercial and industrial acquisitions

Distribution warehouses have been identified as a strategic acquisition target for the Duchy of Lancaster, due to their strong yield, the flexibility they offer for a variety of occupational uses, and rising levels of tenant demand.

This year has seen the acquisition of two significant commercial property investments in this sector. The first, in June 2014, was the £10.7m purchase of two semi-detached warehouses at Walker Park in Blackburn. The second was the £10.6m purchase of a distribution warehouse and purpose-built research facility at Estuary Commerce Park in Speke, Liverpool.

Our Walker Park investment totals 460,00 sq ft. It is located adjacent to Junction 5 of the M65 motorway and offers easy access to the M61 and M6. The units are held freehold and are leased to two tenants, Michael Davies and Associates Ltd – a wholly owned subsidiary of Bunzl Plc – and Sally Salon Services, the world's largest distributor of professional beauty products, with over 4,000 stores worldwide.

Our investment at Estuary Commerce Park also offers strong transport links being close to the M62, Liverpool John Lennon Airport and Garston Freightliner Rail Terminal. Johnson Controls, Shops Direct Group, B&M Bargains and DHL International are all occupiers at the Park, which is in close proximity to Jaguar Land Rover at Halewood. Both Duchy properties are held leasehold, with 1 Hercules Drive let to Communis UK Limited for 20 years from May 2007 and 14 Estuary Banks let to the Secretary of State for Health for 25 years from October 2003.

The Duchy's long-term strategy continues to be to secure strong returns from good quality properties in key locations.



*Estuary Commerce Park, Speke*



# Strategic Report

## Financial and Risk Review

Net Operating Income has increased in the year by 13.0% to £16.6m (2014: £14.7m), the highest level ever recorded. The Net Surplus delivered to the Keeper of the Privy Purse also increased by 18.0% to £16.0m (2014: £13.6m). The strong performance for the year has been spread across all the portfolios.

Capital has also performed well, with an increase in Net Asset Value of 6.8% to £472.1m (2014: £442.0m).

Last year we continued to see a significant amount of structural change within the Duchy. Work continues to improve the controls and processes throughout the organisation and to ensure that the focus on individual business areas is enhanced. The results for the year show a willingness to buy when the appropriate opportunities arise, and at the same time, to take advantage of the low interest rate environment.

Over the year, the Duchy sold £8.2m of its property portfolio, the bulk of the sales being peripheral residential properties and purchased £23.4m of mostly commercial property. In addition, it invested £3.4m in capital improvements and £596k in the upkeep of its properties, of which £286k was spent on its residential portfolio.

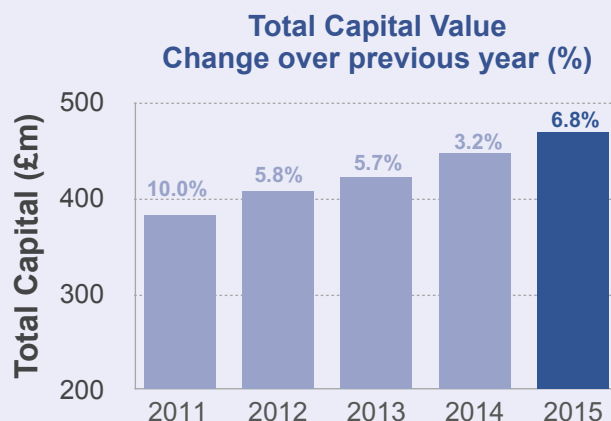
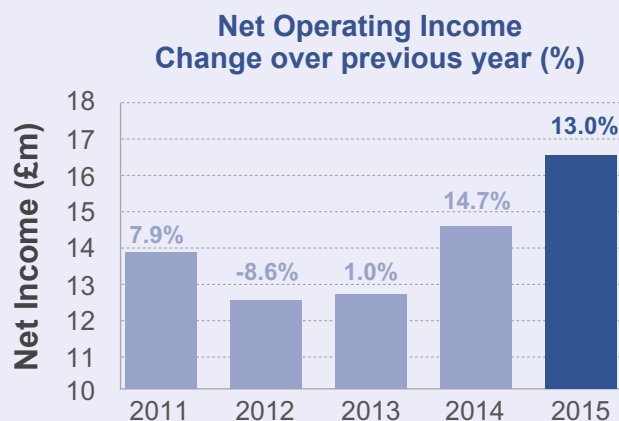
### Liquidity and the Financial Portfolio

The Duchy consistently remains fully invested. Although long term strategic asset allocation targets and quality improvement objectives are the main drivers of the sales and purchases programme, we take advantage of any opportunistic purchases if they are deemed appropriate.

Over the year, the Duchy has increased its borrowing levels to £50m and has continued to benefit from historically low interest rates throughout the period. The level of gearing is continually under review and Council has approved borrowing up to £100m. However, in accordance with the revised borrowing policy and risk mitigation, about one half of current debt remains on a fixed rate for the remaining duration of the loans.

The financial portfolio, as well as providing a significant income for the Duchy, remains the major source of

A summary of the performance over the last five years is shown below



liquidity. The management of the quoted portfolio has been predominantly placed in the hands of a single manager, Newton Investment Management Limited, which has helped to enhance accountability and reduce administration.

In addition, Stanhope Capital continue to act as our investment consultants to maintain an independent watch over the whole of the financial portfolio.

This arrangement works well with a total return of 9.8%. In addition to the good performance during the year, the financial portfolio provides a depository for surplus funds as well as liquidity.

## Strategic Report continued

### Principal risks and uncertainties

The Duchy seeks to ensure that the risks are identified, quantified where possible, understood and managed appropriately. We have a comprehensive risk register which is reviewed by Council annually and any actions required are taken. In addition, an annual risk review is presented to Council which considers the key areas of property income risk across the Duchy portfolio.

The Duchy has also established an advisory group which meets twice a year and specifically focuses on the income, capital, debt and construction risks across the estates.

The principal risks faced by the Duchy are shown below.

#### Strategic risk

Each year the Duchy carries out a five year strategic review and budget and prepares rolling forecasts on a quarterly basis. In addition, a 2020 rural vision document has been prepared to review long term trends and assess options for continued and ongoing viability of Duchy operations.

#### Property risk

The principal property risk is the loss of income. A full annual review of tenants and sectors is undertaken to ensure a well-diversified tenant base and to assess the target of improving the covenant strength and diversification across the Duchy portfolios.

#### Development risk

The Duchy has established a robust evaluation process and seeks to manage the development cycle including obtaining planning consents and closely monitoring the lettings, valuation and construction process. Construction risk is managed in-house using external advisors and contractors as appropriate.

#### Financial portfolio risk

The Duchy employs an investment consultant to advise and an investment manager to manage the financial portfolio. The portfolio is reviewed quarterly to ensure that it remains in line with the risk and return objectives as set by the Duchy.

#### Interest rate risk

The Duchy has an approved debt policy and hedging strategy in place in order to maintain interest rate risk at an agreed and manageable level.

#### Liquidity risk

The Duchy seeks to maintain liquidity within its financial portfolio to satisfy short term cash requirements and in addition looks to maintain headroom within its borrowing covenants. Long term liquidity is reviewed and addressed as part of the five year budgeting process.

#### Environmental risk

The comprehensive risk register highlights the key environmental risks which are reviewed annually along with the mitigating controls and actions.

Council is responsible for ensuring that an effective system of internal financial controls is maintained and operated by the Duchy. Council's review of the system of these controls is informed by comments made by the external auditors in their management letter and other reports.

Mark Hudson  
Nathan Thompson  
London  
8 July 2015



# Report of Council

## Review of Governance

### Duchy Capital and Revenue

The Duchy of Lancaster is governed by a number of statutes which place constraints and controls upon the management and administration of the Duchy and its assets. The principal Acts are:

- The Crown Lands Act of 1702
- The Duchy of Lancaster Act 1817
- The Duchies of Lancaster and Cornwall (Accounts) Act 1838
- The Duchy of Lancaster Lands Act 1855
- The Duchy of Lancaster Act 1920
- The Duchy of Lancaster Act 1988
- The Trustee Act 2000

The Sovereign is entitled neither to the Duchy's Capital nor to Capital profits.

### Church Livings

Her Majesty the Queen is Patron of 42 Church Livings in Right of Her Duchy of Lancaster.

### Political and charitable donations

Charitable donations were made from the net income from the bona vacantia and Palatinate account credited to Duchy of Lancaster charitable funds, as described above. There were no political donations.

### The Duchy of Lancaster charitable funds

The Duchy of Lancaster charitable funds comprise separate registered charities set up with The Queen's consent. The Duchy of Lancaster Benevolent Fund, formed in 1993, makes donations to a wide range of charitable causes primarily within the County Palatine. The Duchy of Lancaster Jubilee Trust was formed in 2001 to benefit charitable causes in all areas associated with the Duchy. The Duke of Lancaster Housing Trust was incorporated in 2007 to provide affordable rural housing initially within estates in the ownership of the Duchy. The accounts of these charities are published separately and are available from the Charity Commission and from the Duchy Office.



*Beekeeping grant initiative launched in 2014*

## Report of Council continued

### Administration

The Duchy of Lancaster is administered on behalf of the Sovereign by the Chancellor of the Duchy, and by the Clerk of the Council. The current Chancellor is The Rt Hon Oliver Letwin MP.

The accounts are prepared in compliance with the Treasury Direction set out on pages 48-49. The Chancellor has designated the members of the Council of the Duchy of Lancaster as the Proper Officers and that the Chairman of Council and Clerk of the Council are authorised to sign the accounts on behalf of Council.

The Proper Officers are responsible for the preparation of accounts which are required to be submitted to the Treasury and presented to both Houses of Parliament by Section 2 of the Duchies of Lancaster and Cornwall (Accounts) Act 1838.

### Council of the Duchy of Lancaster

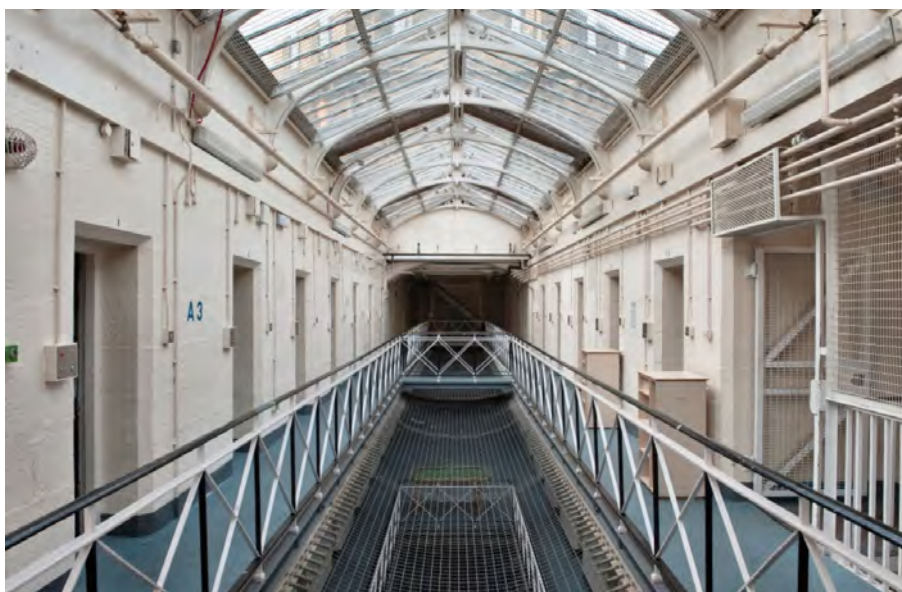
The Chancellor is responsible to Her Majesty the Queen in connection with the affairs of the Duchy of Lancaster separate from his or her Parliamentary role. On 1 July 2000 the Chancellor revocably delegated certain functions, particularly those relating to asset management, to Council. The revocable Delegation has been reaffirmed by successive Chancellors.

Certain powers have been excluded from the Delegation which relate to senior Duchy appointments and such powers conferred upon the Chancellor by Statute. The Clerk of the Council is a member of Council and reports to that body, with Council being responsible to the Chancellor.

The members of Council who served since 1 April 2014 were:

- Lord Shuttleworth KCVO (Chairman of the Council), retired 31 December 2014
- Sir Alan Reid GCVO (The Receiver General)
- Mr Nathan Thompson (Chief Executive and Clerk of the Council)
- Mr Christopher Adcock (Chief Finance Officer)
- Mr Robert Miles QC (The Attorney General)
- Ms Anne Richards CVO, CBE retired 31 December 2014
- Mr Mark Hudson (appointed Chairman of the Council, 1 January 2015)
- Mr Martin Beaumont
- Mr Ian Coull, retired 30 June 2015
- Mrs Kathryn Matthews, appointed 1 February 2015

Council is a body to which appointments are made by Her Majesty the Queen on the advice of the Chancellor.



*'A' Wing, formerly HMP Lancaster Castle*



# Report of Council continued

## Responsibilities of the Proper Officers

The Proper Officers are responsible for ensuring that proper accounting records are maintained with respect to the affairs of the Duchy and for preparing the annual Report and Accounts in accordance with applicable law and International Financial Reporting Standards and for submitting the Report and Accounts annually to the Lords' Commissioners of the Treasury in an agreed form. The Proper Officers are also responsible for safeguarding the Duchy's assets and for maintaining a satisfactory system of control over transactions affecting Duchy property in accordance with the statutes.

In preparing the accounts the Proper Officers will:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- ensure that applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and prepare the accounts on a going concern basis.

The Proper Officers are responsible for the maintenance and integrity of the corporate and financial information included on the Duchy's website.

So far as the Proper Officers are aware, there is no relevant audit information of which the Duchy's auditors are unaware. The Proper Officers have taken all the steps that they ought to have taken as Proper Officers in order to make themselves aware of any relevant audit information and to establish that the Duchy's auditors are aware of that information.

The Council believes that it is good practice periodically to tender the external audit function.

## Environmental Policy

The Duchy of Lancaster is committed to being environmentally responsible in the way it is run. The key components of the policy are addressing climate change, reducing waste and encouraging biodiversity.

The evaluation and operation of the policy and associated procedures is monitored and reviewed by the Management Board, with overview by Council, to ensure that they remain effective and appropriate to the activities of the Duchy.



*Green open space, Cheshire*

## Report of Council continued

### Statement on corporate governance

The Combined Code on Corporate Governance (the UK Corporate Governance Code) issued by the Financial Reporting Council is widely acknowledged as representing best practice in governance. Although the Duchy is not obliged to comply with the requirements of the Code, Council nevertheless supports the principles and provisions set out in the code, and seeks to comply with the code in so far as it is applicable to the circumstances of the Duchy. A full compliance statement is produced internally and annually reviewed by Council. The only subcommittee of Council is the Audit Committee.

### Internal control and risk

The Duchy of Lancaster operates within a control framework appropriate for its size. This incorporates:

- a defined management structure with the appropriate delegation of authority to operational management;
- setting detailed annual budgets and reporting annual results against them;
- setting targets to measure financial and other performance;
- regular reviews of reports which indicate performance against budgets;
- physical and computer security procedures and contingency planning; and
- risk assessment reviews.

Information on the use of financial instruments by the Duchy and its management of financial risk is described on page 12.

### Going Concern

The Duchy's financial projections show that it has considerable financial resources and is forecast to operate within its available cash flows for a period of at least twelve months. The Proper Officers report that, following a review of the relevant financial information, they have a reasonable expectation that the Duchy has adequate resources to continue in operation for the foreseeable future. Accordingly, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Mark Hudson  
Nathan Thompson  
London  
8 July 2015

# Duchy of Lancaster

## Independent Auditors' Report to the Council of the Duchy of Lancaster

We have audited the financial statements of the Duchy of Lancaster for the year ended 31 March 2015 which comprise the Revenue Account Statement of Comprehensive Income, the Capital Account Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Capital and Reserves, the Statement of Cash Flows and the related notes. These accounts have been prepared under the accounting policies set out therein.

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and as applied to the Duchy of Lancaster by the Accounts Direction given by the Treasury dated May 2014.

This report is made solely to the Council, as a body. Our audit work has been undertaken so that we might state to the Council those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of the Proper Officers and auditors

As explained more fully in the Proper Officers' Responsibilities Statement on page 15, the Proper Officers are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Duchy's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Proper Officers; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Report of Council to identify material inconsistencies with the audited

financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of affairs of the Duchy as at 31 March 2015 and of the Duchy's result for the year then ended; and
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and as applied to the Duchy of Lancaster by the Accounts Direction given by the Treasury dated May 2014; and
- have been prepared in accordance with the requirements of the Accounts Direction given by the Treasury dated May 2014.

### Opinion on other matter

In our opinion the information given in the Strategic Report and the Report of Council for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Matters on which we report by exception

We have nothing to report in respect of the following matters where we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Duchy, or returns adequate for our audit have not been received from branches not visited by us; or
- the Duchy financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Proper officers' remuneration as specified by the Accounts Direction given by the Treasury dated May 2014 are not made; or
- we have not received all the information and explanations we require for our audit.

Nicholas Kelsey

For and on behalf of  
Saffery Champness  
Chartered Accountants  
Statutory Auditors  
London  
8 July 2015



# Duchy of Lancaster

## Revenue Account Statement of Comprehensive Income

	Note	Year ended 31 March 2015 £'000	Year ended 31 March 2014 £'000
Revenue	2	20,553	18,206
Operating costs	3	(3,914)	(3,714)
Administrative expenses		(1,525)	(1,365)
<b>Operating surplus</b>		<b>15,114</b>	<b>13,127</b>
Finance income	5	2,641	2,518
Finance costs	6	(1,159)	(960)
Net operating income		16,596	14,685
Development expenditure		(171)	(350)
Development expenditure recovered from Capital		137	229
Net proceeds of bona vacantia	9	2,471	842
Payable to the Duchy of Lancaster charitable funds		(2,471)	(842)
<b>Net surplus for the year</b>		<b>16,562</b>	<b>14,564</b>
<b>Other comprehensive income:</b>			
Actuarial gain/(loss) on retirement benefit obligations	20	69	(187)
<b>Total comprehensive income on Revenue account</b>		<b>16,631</b>	<b>14,377</b>

## Capital Account Statement of Comprehensive Income

	Note	Year ended 31 March 2015 £'000	Year ended 31 March 2014 £'000
Gain on disposal of investment property		472	902
Gain/(loss) on disposal of property held for sale		497	(488)
Repayments to capital:			
Proportion of mineral royalties	3	140	206
Less recovery of Capital valuation fees		(117)	(43)
Net income from escheats		1	15
<b>Surplus for the year</b>		<b>993</b>	<b>592</b>
<b>Total comprehensive income on Capital account</b>		<b>993</b>	<b>592</b>

*The notes to the accounts on pages 22 to 45 are an integral part of these financial statements.*

# Duchy of Lancaster

## Balance sheet

	Note	31 March 2015 £'000	31 March 2014 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Investment property	12	462,655	417,635
Property, plant and equipment	13	4,012	3,253
Financial assets	14	64,582	57,278
<b>Total non-current assets</b>		<b>531,249</b>	<b>478,166</b>
<b>Current assets</b>			
Investment property assets held for sale	15	2,416	4,934
Trade and other receivables	16	3,232	2,885
Cash and cash equivalents		15,180	9,871
<b>Total current assets</b>		<b>20,828</b>	<b>17,690</b>
<b>Total assets</b>		<b>552,077</b>	<b>495,856</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	17	(24,137)	(49,550)
<b>Total current liabilities</b>		<b>(24,137)</b>	<b>(49,550)</b>
<b>Non-current liabilities</b>			
Borrowings	18	(50,000)	–
Interest rate swaps	18	(1,645)	–
Provisions	19	(3,202)	(3,026)
Retirement benefit obligations	20	(949)	(1,234)
<b>Total non-current liabilities</b>		<b>(55,796)</b>	<b>(4,260)</b>
<b>Total liabilities</b>		<b>(79,933)</b>	<b>(53,810)</b>
<b>Net assets</b>		<b>472,144</b>	<b>442,046</b>
<b>Capital and reserves</b>			
Capital Account		473,069	441,952
Capital hedging reserve	18	(1,645)	–
Revenue Account		2,044	1,487
Retirement benefit reserve		(1,324)	(1,393)
<b>Total reserves</b>		<b>472,144</b>	<b>442,046</b>

Mark Hudson  
Nathan Thompson

8 July 2015

*The notes to the accounts on pages 22 to 45 are an integral part of these financial statements.*

# Duchy of Lancaster

## Statement of Changes in Capital and Reserves

	Note	Capital account		Revenue account		Total
		Capital reserve £'000	Capital hedging reserve £'000	Revenue reserve £'000	Retirement benefit reserve £'000	£'000
<b>Balance as at 31 March 2013</b>		429,058	–	483	(1,206)	<b>428,335</b>
Net surplus for the year		592		14,564		<b>15,156</b>
<b>Other comprehensive income:</b>						
Net gain from fair value adjustment on investment property		12,040				<b>12,040</b>
Net gain from fair value adjustment on other property		131				<b>131</b>
Net gain on the revaluation of financial assets		181				<b>181</b>
Net loss from impairment on property held for sale		(50)				<b>(50)</b>
Actuarial loss on retirement benefit obligations	20				(187)	<b>(187)</b>
Less amounts payable to the Privy Purse				(13,560)		<b>(13,560)</b>
<b>Balance as at 31 March 2014</b>		441,952	–	1,487	(1,393)	<b>442,046</b>
Net surplus for the year		993	–	16,562	–	<b>17,555</b>
<b>Other comprehensive income:</b>						
Net gain from fair value adjustment on investment property	12	26,751				<b>26,751</b>
Net gain from fair value adjustment on other property	13	738				<b>738</b>
Net gain on the revaluation of financial assets	14	2,659				<b>2,659</b>
Net loss from impairment on property held for sale	15	(24)				<b>(24)</b>
Loss on financial derivatives	18		(1,645)			<b>(1,645)</b>
Actuarial gain on retirement benefit obligations	20				69	<b>69</b>
Less amounts payable to the Privy Purse				(16,005)		<b>(16,005)</b>
<b>Balance as at 31 March 2015</b>		473,069	(1,645)	2,044	(1,324)	<b>472,144</b>



# Duchy of Lancaster

## Statement of Cash Flows

	Note	Year ended 31 March 2015 £'000	Year ended 31 March 2014 £'000
<b>Cash generated from operating activities</b>	22	<b>37,265</b>	13,305
Interest paid		(1,159)	(960)
<b>Net cash from operating activities</b>		<b>36,106</b>	12,345
<b>Cash flows from investing activities</b>			
Purchase and improvement of investment property		(26,837)	(7,724)
Purchase of owner occupied property		–	(1,556)
Purchase of property held for sale		(1)	(38)
Purchase of financial investments		(5,712)	(68)
Purchase of property, plant and equipment		(44)	(42)
Proceeds from disposal of investment properties		6,950	3,602
Proceeds from disposal of property held for sale		5,082	4,174
Proceeds from disposal of financial investments		1,585	1,265
Financial investment income		2,641	2,518
<b>Net cash inflow/(outflow) from investing activities</b>		<b>(16,336)</b>	2,131
<b>Cash flows from financing activities</b>			
Payments made to the Privy Purse		(14,461)	(12,500)
<b>Increase in cash in the year</b>		<b>5,309</b>	1,976
Cash and cash equivalents at start of year		9,871	7,895
<b>Cash and cash equivalents at end of year</b>		<b>15,180</b>	9,871

# Duchy of Lancaster

## Notes to the accounts

Separate Statements of Comprehensive Income are presented for the Revenue account and the Capital account which represents a departure from the requirements of IFRS. IFRS require the presentation of a single Statement of Comprehensive Income. This departure is necessary due to the separate nature of the Duchy Revenue and Capital accounts, and because only the surplus of the Revenue account may be distributed to the Privy Purse and no distribution may be made of the proceeds from the disposal of capital assets or the gains or losses on their revaluation. The Statement of Changes in Capital and Reserves is also analysed between the Revenue and Capital accounts. These variations to IFRS are as specified in the Accounts Direction given by HM Treasury set out on pages 48-49.

### 1. Accounting policies

#### (a) Basis of accounting

The accounts have been prepared under the historical cost convention as modified by the revaluation of property investments and in accordance with all applicable accounting standards. The accounts are in compliance with the Treasury Direction set out on pages 48-49 and, except as disclosed above, in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board as adopted by the European Union and as modified by HM Treasury.

At the date of approval of these financial statements the following standards and guidelines relevant to the Duchy of Lancaster were in issue but not effective as not yet endorsed by the European Union for the current financial period:

IFRS 9 Financial Instruments (amended)	1 January 2015
IFRS 15 Revenue from contracts with customers	1 January 2017
IAS 16 Property, Plant and Equipment (amended)	1 January 2016

These are not expected to have a material impact on the Duchy of Lancaster's Financial Statements.

#### (b) Significant judgements, key assumptions and estimates

##### **Operating leases**

The Proper Officers have exercised judgement in determining that in all material respects, where the Duchy of Lancaster is the lessor, all such leases are accounted for as operating leases. In exercising this judgement consideration has been given to the nature and economic life of the buildings (which are all accounted for within investment properties), and whether substantially all the risks and rewards of ownership remain with the Duchy.

##### **Retirement benefit obligations**

The Duchy recognises and discloses its retirement benefit obligation in accordance with the measurement and presentational requirement of IAS 19, 'Retirement Benefit Obligations.' The calculations include a number of judgements and estimations in respect of the expected rate of return on assets, the discount rate, inflation assumptions, the increase in salaries, and life expectancy, amongst others. Changes in these assumptions can have a significant effect on the value of the retirement benefit obligation. Further details of the assumptions are set out in note 20.

##### **Bona Vacantia late claims fund**

The Late Claims Fund is a provision for legitimate claims on estates declared to be bona vacantia and whose assets have already been distributed. The provision is based on 30% of the Bona Vacantia account; this is a significant judgement based on the anticipated level of late claims (see note 19).

# Duchy of Lancaster

## Notes to the accounts (continued)

### Financial instruments valuations

The Duchy discloses the fair value of its financial instruments in a hierarchy that prioritises the inputs to valuation techniques used to measure fair value. The three levels are as follows:

- Level 1 financial instruments are valued at unadjusted quoted prices in active markets for identical instruments; these require no judgement.
- Level 2 financial instruments are valued based significantly on observable market data. Inputs other than quoted prices are directly or indirectly observable for the asset or liability.
- Level 3 financial instruments use valuation techniques which incorporate at least one input (with a potentially significant impact on valuation) which is based on unobservable market data.

Classification within the hierarchy and the valuation techniques applied require judgement and further details are set out in note 21.

### (c) Operating leases

The Proper Officers have exercised judgement in determining that in all material respects, where the Duchy of Lancaster is the lessor, all such leases are accounted for as operating leases. In exercising this judgement consideration has been given to the nature and economic life of the buildings (which are all accounted for within investment properties), the split of lease rentals between the land and buildings elements, and whether substantially all the risks and rewards of ownership remain with the Duchy.

### (d) Valuation of property

Investment property, investment property assets held for sale and owner occupied property are all held at fair value. The policy of the Duchy is to have the investment and operational property assets independently valued at least every five years. In the current year, the commercial properties and land held for development were mainly valued externally.

All the valuations are in accordance with the principles of the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors as follows :

- (i) Investment properties, including land held for development and properties occupied by the Duchy, are valued on the basis of Market Value, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had acted knowledgeably, prudently and without compulsion. Mineral bearing land is valued on the basis of Existing Use Value.
- (ii) Mineral and foreshore assets are only valued where a letting exists, where entry has occurred, or where an interest is likely to be sold in the next year for a capital premium.
- (iii) Castles and other historical properties which are not commercially let are valued at the lower of depreciated replacement cost and net realisable value, or, where there is no market in assets of that type and the property could not be physically reconstructed, a nil value is applied.

The indirect property investment is shown at latest formal independent valuation.

The aggregate surplus or deficit arising from revaluation is transferred to the Capital Account, which is not distributable.

The purchase or sale of property is recognised from the date on which an unconditional contract is entered into or the last substantive condition in a conditional contract is satisfied. The profit or loss on disposal of property is taken to the Capital Account Statement of Comprehensive Income. Investment properties held for sale are shown in the Balance Sheet as investment property within current assets.

### (e) Owner occupied property

Properties occupied by the Duchy of Lancaster are valued on the basis of fair value. The properties are included within property, plant and equipment. Any surplus or deficit arising on revaluation is taken directly to the Capital Account Statement of Comprehensive Income.



# Duchy of Lancaster

## Notes to the accounts (continued)

### (e) Owner occupied property (continued)

No depreciation is provided in respect of these properties. The residual value of the property at the point where the Duchy would cease to use it, or would dispose of it, is expected to be materially in line with fair value. As such, any depreciation (between fair value and residual value) at any point would be immaterial.

### (f) Valuation of financial assets

Financial assets are classified as available for sale. Quoted investments are shown at fair value, determined on market value based on quoted prices. Unquoted investments are shown at latest independent valuation. Any profit or loss is taken to the Capital Account Statement of Comprehensive Income.

### (g) Depreciation

(i) In accordance with IAS 40 no depreciation is provided on investment properties.

(ii) Revenue fixed assets are depreciated over their estimated useful lives on a straight line basis, applying the following rates:

Motor vehicles	20% per annum
Plant and equipment, including computers	20 - 25% per annum

### (h) Woodlands

Sales of timber and expenditure relating to the upkeep of the woodlands are included in the Revenue Account.

### (i) Recognition of income

Income from property and interest income is accounted for on an accruals basis. Dividends and income from bona vacantia are accounted for when received.

### (j) Mineral rents and royalties

The receipts from mineral royalties are apportioned on the basis of one half to Capital and one half to Revenue.

### (k) Pension liabilities and post retirement benefits

Defined benefit pension scheme current service costs relating to the year, together with the scheme interest cost less the expected return on the scheme assets for the year, are recorded in administrative expenses within the Revenue account. Actuarial gains and losses are recognised in the Revenue Account Statement of Comprehensive Income.

The scheme assets are measured at fair value at the balance sheet date. Scheme liabilities are measured on an actuarial basis at the balance sheet date using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent term to the scheme liabilities. The resulting defined benefit liability is presented within the provisions for liabilities in the balance sheet.

Contributions by the Duchy to personal pension arrangements of 10% of salaries up to age 50 and 13% of salaries thereafter are charged to the Revenue account as they fall due.

### (l) Development expenditure (Development site and other project expenditure)

Legal and professional costs incurred in bringing forward land for development and other potential Capital projects are charged to Revenue. These costs can be recovered from Capital only when there is a disposal for a Capital sum of an interest in the land concerned, or when the potential Capital projects are commenced.

Internal costs relating to staff time spent working on Capital projects are also charged to Capital on completion of the project.

# Duchy of Lancaster

## Notes to the accounts (continued)

### (m) Bona vacantia

Proceeds of bona vacantia comprise the residue of assets and liabilities which have fallen to be dealt with by the Solicitor for the Affairs of the Duchy of Lancaster acting as a Corporation Sole under the Administration of Estates Act 1925, the Companies Act 2006, and other relevant legislation.

Net income from bona vacantia and the sale of escheated property, after allocations for future liabilities and the costs of administering bona vacantia, is applied to the costs of Palatinate administration and historical obligations, and, at the direction of the Council, the balance is transferred to the Duchy of Lancaster Jubilee Trust, a separate registered charity.

The proceeds from bona vacantia are accounted for by the Duchy in the year in which they are received and represent the proceeds received from estates settled by the Solicitor for the Affairs of the Duchy of Lancaster in the year ended 30 September 2014. The accounts of the Solicitor for the Affairs of the Duchy of Lancaster for the year ended 30 September 2014 are, for the purposes of information, set out on page 47.

### (n) Heritage assets

There is no International Financial Reporting Standards equivalent to the UK GAAP Heritage Assets standard, FRS 30. However, the Duchy continues to refer to those assets previously treated as heritage assets as such. Heritage assets are a collection of assets that the Duchy has held over the centuries. These assets are considered to be of historic and artistic importance and cover a range of items including paintings, furniture and works on paper. Certain heritage assets of the Duchy are held by museums, galleries or other institutions open to the public, where they are on loan and managed as part of their permanent collections.

The Duchy's heritage assets are managed by the Assistant Keeper of the Records who reports to the Keeper of the Records, being the Chief Executive of the Duchy. In addition, a register of the Duchy's heritage assets is maintained on a database and there are a number of paper records which relate to individual collections. All objects are subject to regular reviews to verify location and any change in conservation status. Where appropriate, specialist conservation and curatorial advice is sought from relevant experts.

It is the intention that the Duchy's heritage assets will be held for the long term. In exceptional circumstances, Council may consider a disposal of objects and there are no current plans to add further to the collection.

The assets hold no material value except to the extent that they add to the cultural and historical wealth of the country and accordingly they are not shown as assets within these financial statements.

### (o) Trade and other receivables

Trade and other receivables are stated at amortised cost less appropriate allowances for estimated irrecoverable amounts. Such allowances are based on an individual assessment of each receivable.

### (p) Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost.

### (q) Borrowings

Borrowings are initially recognised at fair value and subsequently measured at amortised cost.

# Duchy of Lancaster

## Notes to the accounts (continued)

### (r) Hedge accounting

Derivative financial and hedging activities:

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Duchy designates certain derivatives as hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge). The gains or losses arising on the revaluation of the derivative contracts are recognised in the Capital hedging reserve in the Capital Account.

At the inception of the hedge relationship, the Duchy documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Duchy documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Note 21 sets out details of the fair values of the derivative instruments used for hedging purposes.

Movements in the hedging reserve in equity are detailed in note 18.

### (s) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income within the Capital account. The gain or loss relating to the ineffective portion is recognised immediately in the capital income statement, and is included in the 'other gains and losses' line item.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to the capital income statement in the periods when the hedged item is recognised in the capital income statement, in the same line of the income statement as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Duchy revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised or no longer qualifies for hedging accounting. Any gain or loss recognised in other comprehensive income at that time is accumulated in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in the capital income statement.



# Duchy of Lancaster

## Notes to the accounts (continued)

### 2. Revenue

	2015 £'000	2014 £'000
<b>Income from Property</b>		
Commercial	11,912	11,622
Agricultural	4,120	3,777
Residential	1,960	1,846
Mineral rents and royalties	734	490
Indirect property investment income	1,827	471
<b>Total</b>	<b>20,553</b>	<b>18,206</b>

### 3. Operating costs

	Repairs and other direct costs £'000	Repayments to Capital £'000	Total 2015 £'000	Total 2014 £'000
<b>Expenditure on property</b>				
Commercial	916	–	916	981
Agricultural	351	–	351	277
Residential	357	–	357	348
Mineral rents and royalties	2	140	142	206
	1,626	140	1,766	1,812
Staff costs, administration and professional fees	2,148	–	2,148	1,902
<b>Total</b>	<b>3,774</b>	<b>140</b>	<b>3,914</b>	<b>3,714</b>

### 4. Leasing: Operating leases with tenants

The Duchy of Lancaster leases out all of its investment properties under operating leases with, on average, 28 years remaining to expiry. The aggregate minimum rentals, excluding contingent rents, receivable under non-cancellable leases are as follows:

	2015 £'000	2014 £'000
Less than one year	14,574	12,282
Between two to five years	41,937	36,314
After five years	151,403	150,144
	<b>207,914</b>	<b>198,740</b>

The value of the assets generating this rental income is detailed in notes 12 and 15.

	2015 £'000	2014 £'000
Contingent rents receivable	764	604

# Duchy of Lancaster

## Notes to the accounts (continued)

### 5. Finance income

	2015 £'000	2014 £'000
Interest on other fixed interest stocks and unit trusts	458	569
Income from financial assets	2,191	1,905
Bank and other interest	25	77
Investment management fees	(33)	(33)
	<b>2,641</b>	<b>2,518</b>

### 6. Finance costs

	2015 £'000	2014 £'000
Loan interest	1,159	960

### 7. Total comprehensive income for the year

	2015 £'000	2014 £'000
Total comprehensive income for the year is arrived at after charging:		
Staff costs (note 8(a))	1,807	1,602
Depreciation of property, plant and equipment	22	29
Auditors' remuneration		
– audit services	23	23
– non-audit services	3	4

# Duchy of Lancaster

## Notes to the accounts (continued)

### 8. Employee information

- (a) The total cost of employees (excluding fees paid to the Chancellor and non-executive Council members) during the year was as follows:

	2015 £'000	2014 £'000
Wages and salaries	1,241	1,064
Social security costs	153	132
Pension contributions	413	406
	<b>1,807</b>	<b>1,602</b>

- (b) The average number of employees (excluding the Chancellor and non-executive Council members) during the year was 16 (2014:16).

- (c) The full details of the Chancellors' and each Council member's remuneration package for the financial year are set out below. These individuals are the key management personnel.

	Basic salary and fees £'000	Performance payments £'000	Taxable benefits and allowances £'000	Total 2015 £'000	Total 2014 £'000
Rt Hon Oliver Letwin MP (appointed as Chancellor on 16 July 2014)	–	–	–	–	–
Rt Hon The Lord Hill of Oareford (retired as Chancellor on 16 July 2014)	–	–	–	–	–
Lord Shuttleworth KCVO (retired 31 December 2014)	51	–	–	51	68
Mr Mark Hudson	40	–	–	40	17
Sir Alan Reid GCVO	–	–	–	–	–
Mr Nathan Thompson	243	–	1	244	147
Mr Christopher Adcock	140	–	1	141	166
Mr Martin Beaumont	17	–	–	17	17
Mr Robert Miles QC	12	–	–	12	12
Mr Ian Coull (retired 30 June 2015)	17	–	–	17	4
Mrs Kathryn Matthews (appointed 1 February 2015)	3	–	–	3	–
Ms Anne Richards CVO, CBE (retired 31 December 2014)	13	–	–	13	17
Sir Paul Clarke KCVO	–	–	–	–	118
Mr Hugh Seaborn CVO	–	–	–	–	13

In addition pension contributions paid by the Duchy for the financial year are set out below:

	2015 £'000	2014 £'000
Sir Paul Clarke KCVO	–	9
Mr Christopher Adcock	18	17

Where an executive Council member is released to serve as a non-executive Director outside the Duchy of Lancaster, the executive Council member does not receive any earnings from that appointment.

# Duchy of Lancaster

## Notes to the accounts (continued)

### 9. Net proceeds from bona vacantia

	2015 £'000	2014 £'000
Proceeds from bona vacantia	5,017	3,385
Provisions for late claims transferred to Late Claims Fund	(1,505)	(1,016)
	3,512	2,369
Costs of palatinate administration and historical obligations (note 10)	(1,041)	(1,527)
	2,471	842

### 10. Palatinate administration and historical obligations

	2015 £'000	2014 £'000
Administration of bona vacantia – costs met directly by the Duchy	122	102
Upkeep of castles and historic monuments	464	942
Rental and other income from castles	(2)	(3)
Savoy Chapel – stipends, running costs and repairs	232	263
Ceremonial, ancient stipends, charitable annuities and preservation of historic records	177	181
Administration of Duchy of Lancaster charitable funds	48	42
	1,041	1,527

Rental income from castles has been mainly receivable under short-term agreements. Where agreements have been translated into long-term agreements the income and expenditure are included in income from property.



# Duchy of Lancaster

## Notes to the accounts (continued)

### 11. Analysis of balance sheet

	Revenue		Capital	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000
<b>Assets</b>				
<b>Non-current assets</b>				
Investment property	–	–	462,655	417,635
Property, plant and equipment	68	47	3,944	3,206
Financial assets	5,202	4,016	59,380	53,262
<b>Total non-current assets</b>	<b>5,270</b>	<b>4,063</b>	<b>525,979</b>	<b>474,103</b>
<b>Current assets</b>				
Investment property assets held for sale	–	–	2,416	4,934
Trade and other receivables	3,217	2,870	15	15
Cash and cash equivalents	7,472	7,735	7,708	2,136
Balances due from Capital	12,759	7,816	–	–
<b>Total current assets</b>	<b>23,448</b>	<b>18,421</b>	<b>10,139</b>	<b>7,085</b>
<b>Total assets</b>	<b>28,718</b>	<b>22,484</b>	<b>536,118</b>	<b>481,188</b>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Trade and other payables	(23,847)	18,130	(290)	(31,420)
Balances due to Revenue	–	–	(12,759)	(7,816)
<b>Total current liabilities</b>	<b>(23,847)</b>	<b>(18,130)</b>	<b>(13,049)</b>	<b>(39,236)</b>
<b>Non-current liabilities</b>				
Borrowings	–	–	(50,000)	–
Interest rate swaps	–	–	(1,645)	–
Provisions	(3,202)	(3,026)	–	–
Retirement benefit obligations	(949)	(1,234)	–	–
<b>Total non-current liabilities</b>	<b>(4,151)</b>	<b>(4,260)</b>	<b>(51,645)</b>	<b>–</b>
<b>Total liabilities</b>	<b>(27,998)</b>	<b>(22,390)</b>	<b>(64,694)</b>	<b>(39,236)</b>
<b>Net assets</b>	<b>720</b>	<b>94</b>	<b>471,424</b>	<b>441,952</b>
<b>Capital and reserves</b>				
Revenue Account	2,044	1,487	–	–
Capital Account	–	–	471,424	441,952
Retirement benefit reserve	(1,324)	(1,393)	–	–
<b>Total reserves</b>	<b>720</b>	<b>94</b>	<b>471,424</b>	<b>441,952</b>

# Duchy of Lancaster

## Notes to the accounts (continued)

### 12. Investment Property

	Commercial and indirect property investment £'000	Agricultural woods minerals foreshores £'000	Residential £'000	Land held for development £'000	Total £'000
Value at 1 April 2013	192,311	148,222	58,627	3,516	402,676
Purchases at cost	485	5,905	1,334	–	7,724
Transfers from Owner Occupied Property	–	–	1,470	–	1,470
Transfers from investment property held for sales	–	7	560	–	567
Transfers to investment property held for sale	–	(1,836)	(2,306)	–	(4,142)
Disposals	–	(8)	(2,692)	–	(2,700)
Change in fair value	6,135	8,769	(2,651)	(213)	12,040
<b>Value at 31 March 2014</b>	<b>198,931</b>	<b>161,059</b>	<b>54,342</b>	<b>3,303</b>	<b>417,635</b>

	Commercial and indirect property investment £'000	Agricultural woods minerals foreshores £'000	Residential £'000	Land held for development £'000	Total £'000
Value at 1 April 2014	198,931	161,059	54,342	3,303	417,635
Purchases at cost	23,411	1,333	2,093	–	26,837
Transfers from Owner Occupied Property	–	–	–	–	–
Transfers from investment property held for sales	–	26	–	–	26
Transfers to investment property held for sale	–	(971)	(1,145)	–	(2,116)
Disposals	(3,859)	(452)	(2,167)	–	(6,478)
Change in fair value	18,794	2,758	5,775	(576)	26,751
<b>Value at 31 March 2015</b>	<b>237,277</b>	<b>163,753</b>	<b>58,898</b>	<b>2,727</b>	<b>462,655</b>

The change in fair values are recognised in the Capital Account Statement of Comprehensive Income. The figures disclosed in the Capital Account have been reanalysed to show the profit on disposal of investment properties and properties held for sale on a consistent basis as the 2014 figures.

All landed property is situated in England and Wales. Purchases at cost include expenses of purchases and expenditure on permanent improvements of £3,396,000 (2014: £2,041,000). Sales proceeds are net of expenses of sale and development costs charged from Revenue.

At 31 March 2015, all of the commercial property portfolio was valued externally by professionally qualified valuers. The rural property portfolio was valued externally by professionally qualified valuers. The breakdown of the external valuations at 31 March 2015 by valuer is as follows:

Knight Frank	48%
Smiths Gore	30%
Savills	21%
Others	1%

# Duchy of Lancaster

## Notes to the accounts (continued)

### 13. Property, plant and equipment

	Owner Occupied Property £'000	Motor Vehicles £'000	Plant & Equipment £'000	Total £'000
<b>Cost or valuation</b>				
Balance at 1 April 2014	3,206	17	304	3,527
Additions during the year	–	–	44	44
Change in fair value	738	–	–	738
Less: disposals during the year	–	–	(57)	(57)
Less: transfers to Investment property	–	–	–	–
<b>Balance at 31 March 2015</b>	<b>3,944</b>	<b>17</b>	<b>291</b>	<b>4,252</b>
<b>Accumulated depreciation</b>				
Balance at 1 April 2014	–	2	272	274
Charged during the year	–	3	18	21
Less: disposals during the year	–	–	(55)	(55)
<b>Balance at 31 March 2015</b>	<b>–</b>	<b>5</b>	<b>235</b>	<b>240</b>
Net Book Value <b>31 March 2015</b>	<b>3,944</b>	<b>12</b>	<b>56</b>	<b>4,012</b>
31 March 2014	3,206	15	32	3,253

### 14. Financial assets

	Value at 1 April 2014 £'000	Additions at cost £'000	Sales proceeds £'000	Change in market value £'000	Value at 31 March 2015 £'000
<b>Capital Financial Assets</b>					
Fixed interest unit trust	4,207	–	–	290	4,497
Equities	40,756	5,000	–	1,662	47,418
Private equity	8,299	44	(1,585)	707	7,465
	53,262	5,044	(1,585)	2,659	59,380
<b>Other Financial Assets</b>					
Fixed interest unit trust	4,016	668	–	518	5,202
	4,016	668	–	518	5,202
<b>Total</b>	<b>57,278</b>	<b>5,712</b>	<b>(1,585)</b>	<b>3,177</b>	<b>64,582</b>

The changes in market values are recognised in the Capital Account Statement of Comprehensive Income apart from the change in market value of the fixed interest unit trust which is recognised in note 19.

All financial assets except the private equity funds are listed on recognised stock exchanges, are authorised unit trusts, or are authorised open ended investment companies. Other financial assets are investments held to cover late claims liabilities (note 19).

# Duchy of Lancaster

## Notes to the accounts (continued)

### 15. Investment property assets held for sale

	Commercial and indirect property investment £'000	Agricultural woods minerals foreshores £'000	Residential £'000	Land held for development £'000	Total £'000
Value at 1 April 2013	375	1,809	1,869	1,980	6,033
Purchases at cost	–	–	11	27	38
Transfers to investment property	–	(7)	(560)	–	(567)
Transfers from investment property	–	1,836	2,306	–	4,142
Disposals	(375)	(1,502)	(778)	(2,007)	(4,662)
Impairment	–	(50)	–	–	(50)
<b>Value at 31 March 2014</b>	<b>–</b>	<b>2,086</b>	<b>2,848</b>	<b>–</b>	<b>4,934</b>

	Commercial and indirect property investment £'000	Agricultural woods minerals foreshores £'000	Residential £'000	Land held for development £'000	Total £'000
Value at 1 April 2014	–	2,086	2,848	–	4,934
Purchases at cost	–	–	1	–	1
Transfers to investment property	–	(26)	–	–	(26)
Transfers from investment property	–	1,321	795	–	2,116
Disposals	–	(2,060)	(2,525)	–	(4,585)
Impairment	–	–	(24)	–	(24)
<b>Value at 31 March 2015</b>	<b>–</b>	<b>1,321</b>	<b>1,095</b>	<b>–</b>	<b>2,416</b>

At the year end the Duchy was actively marketing properties for sale at the fair values less costs to sell stated above and these are expected to be sold within 12 months of the balance sheet date.

### 16. Trade and other receivables

	2015 £'000	2014 £'000
Trade receivables (rents)	678	846
Other receivables	168	306
Prepayments and accrued income	2,386	1,733
	<b>3,232</b>	<b>2,885</b>

All receivables are denominated in Sterling.



# Duchy of Lancaster

## Notes to the accounts (continued)

### 16. Trade and other receivables (continued)

As of 31 March 2015 trade receivables of £678,000 (2014: £846,000) were past due but not impaired.

The ageing analysis of these trade receivables is as follows:

	2015 £'000	2014 £'000
Under 3 months	641	830
3 to 12 months	15	16
Over 12 months	22	–

As of 31 March 2015 trade receivables of £298,000 (2014: £338,000) were impaired and provided for. The impaired receivables mainly relate to tenants who are in financial difficulty.

There is no significant concentration of credit risk with respect to trade receivables as the Duchy has a large number of tenants.

Movements in the provision for impairment of trade receivables are as follows:

	2015 £'000	2014 £'000
At 1 April	338	312
Provision for receivables impairment	(23)	34
Receivables written off	(17)	(8)
<b>At 31 March</b>	<b>298</b>	<b>338</b>

The recognition and release of the provision for impaired receivables has been included in the Revenue Account Statement of Comprehensive Income.

The other classes within trade and other receivables do not contain impaired assets.

### 17. Trade and other payables

	2015 £'000	2014 £'000
Amounts falling due within one year:		
Trade payables	613	94
Other taxes and social security	710	1,017
Other payables	8,438	8,123
Late claims provision	2,000	1,000
Bank borrowings	–	31,000
Accruals and deferred income	5,300	4,413
Due to the Privy Purse	4,605	3,061
Due to Duchy of Lancaster charitable funds	2,471	842
	<b>24,137</b>	<b>49,550</b>

# Duchy of Lancaster

## Notes to the accounts (continued)

### 18. Borrowings

	Less than 1 year £'000	1 to 5 years £'000	Over 5 years £'000	2015 Total £'000
Borrowings	–	10,000	40,000	50,000
Interest rate swaps	–	30	1,615	1,645

The total borrowings of £50m consists of 3 loans with the following terms: Loan of £9m repayable June 2024, interest in the year is at a floating rate which has been fully swapped to a fixed rate of 2.78%. Loan of £31m repayable October 2021, interest in the year is at a floating rate, £11m of the loan has been swapped to a fixed rate of 2.1875%. Loan of £10m repayable February 2020, interest in the year is at a floating rate, £2.5m of the loan has been swapped to a fixed rate of 1.435%.

The fair value of borrowings is not considered to be significantly different from their book values.

The Duchy has three interest rate derivatives designated into cash flow hedge relationships on loan facilities totalling £22.5m. As at 31 March 2015 a loss of £1.645m was recognised in Other Comprehensive Income in the Capital Accounts Statement in respect of the fair value movement of the cash flow hedging derivatives

### 19. Provisions for liabilities and charges

The Late Claims Fund was established to provide a form of insurance against legitimate claims on estates declared to be bona vacantia and whose assets have already been distributed. Income earned on the assets of the Fund is retained to meet claims. Any surplus on the Fund is payable to the Duchy of Lancaster charitable funds. The Fund is separately invested in a unit trust (note 14). The movements of the Fund are as follows:

	2015 £'000	2014 £'000
Provisions for late claims received from the bona vacantia account met directly by the Duchy	1,505	1,016
Provisions for late claims received from the bona vacantia account	–	–
Increase/(decrease) in value of investments	518	(91)
Claims paid during the year	(847)	(1,009)
Surplus for the year	1,176	(84)
Late Claims Fund balance at 1 April	4,026	4,110
Late Claims Fund balance at 31 March	5,202	4,026
	2015 £'000	2014 £'000
Shown as:		
Included in Trade and other payables	2,000	1,000
Included in Non-current liabilities - provisions	3,202	3,026

# Duchy of Lancaster

## Notes to the accounts (continued)

### 20. Retirement benefit obligations

A full actuarial valuation was carried out at 31 March 2012 and has been updated to 31 March 2015 by a qualified independent actuary. The major assumptions used by the actuary were:

	31 March 2015 % pa	31 March 2014 % pa	31 March 2013 % pa	31 March 2012 % pa	31 March 2011 % pa
Rate of increase in pensionable salaries	4.2	4.8	4.8	4.8	5.1
Rate of increase in pensions in payment	1.7	2.3	2.3	2.5	2.8
Discount rate	3.0	4.3	4.0	4.7	5.6
Inflation assumption (RPI)	2.7	3.3	3.3	3.3	3.6
Inflation assumption (CPI)	1.7	2.3	2.3	2.5	2.8

The mortality assumptions used by the actuary (and resulting life expectancies) were:

	Mortality assumption	Life expectancy
Pensioners now aged 60		
Males	S1PA YOB with CMI 2011	27.3
Females	projection and a long-term rate of improvement of 1.25%	29.8
Future pensioners from age 60 but currently aged 40		
Males	S1PA YOB with CMI 2011	29.3
Females	projection and a long-term rate of improvement of 1.25%	31.8

At 31 March 2015, the weighted-average duration of the Scheme's liabilities was approximately 14 years.

The assets in the Scheme, the Scheme liabilities and the resulting deficits at various dates were as follows:

	Value at 31 March 2015 %pa £'000	Value at 31 March 2014 %pa £'000	Value at 31 March 2013 %pa £'000	Value at 31 March 2012 %pa £'000	Value at 31 March 2011 %pa £'000
Equities	3,994	3,453	3,517	2,723	2,251
Gilts	1,060	872	916	4,742	5,124
Corporate Bonds	3,891	3,878	3,834	–	–
Cash	45	14	172	356	76
Total market value of assets	8,990	8,217	8,439	7,821	7,451
Present value of Scheme liabilities	(9,939)	(9,451)	(9,712)	(8,935)	(8,131)
Deficit in the Scheme	(949)	(1,234)	(1,273)	(1,114)	(680)

# Duchy of Lancaster

## Notes to the accounts (continued)

### 20. Retirement benefit obligations (continued)

Analysis of the amount charged to operating profit:

	2015 £'000	2014 £'000
Current service cost	54	49
Past service cost	–	–
Scheme administrative cost	70	20
<b>Total operating charge</b>	<b>124</b>	<b>69</b>

Analysis of the amount credited to other finance income:

	2015 £'000	2014 £'000
Interest income on scheme assets	349	333
Interest on pension scheme liabilities	(394)	(377)
<b>Net interest on the net defined benefit liability</b>	<b>(45)</b>	<b>(44)</b>

Remeasurement of net defined benefit (asset)/liability to be shown in other comprehensive income (OCI)

	2015 £'000	2014 £'000
Net remeasurement (gain)/loss - financial	804	(341)
Net remeasurement (gain)/loss - demographic	–	–
Net remeasurement (gain)/loss - experience	(184)	210
Return on assets, excluding interest income	(689)	318
<b>Total remeasurement of net defined benefit (asset)/liability to be shown in OCI</b>	<b>(69)</b>	<b>187</b>

Movement in Scheme liabilities during the year

	2015 £'000	2014 £'000
Liabilities at start of year	9,451	9,712
Movement in year:		
Current service cost	54	49
Interest cost	394	377
Contributions paid by Scheme members	3	3
Benefits paid	(583)	(559)
Net remeasurement (gain)/loss - financial	804	(341)
Net remeasurement (gain)/loss - demographic	–	–
Net remeasurement (gain)/loss - experience	(184)	210
<b>Liabilities at end of year</b>	<b>9,939</b>	<b>9,451</b>



# Duchy of Lancaster

## Notes to the accounts (continued)

### 20. Retirement benefit obligations (continued)

Movement in Scheme assets during the year

	2015 £'000	2014 £'000
Assets at start of year	8,217	8,439
Movement in year:		
Interest income on Scheme assets	349	333
Return on assets, excluding interest income	689	(318)
Contributions (total paid by employer and scheme members)	388	342
Benefits paid	(583)	(559)
Scheme administrative cost	(70)	(20)
Assets at end of year	8,990	8,217

	2015 £'000	2014 £'000
Scheme assets	8,990	8,217
Scheme liabilities	(9,939)	(9,451)
Net liability arising from retirement benefit obligations	(949)	(1,234)

	Value at 31 March 2015 £'000	Value at 31 March 2014 £'000
Real Return Fund:		
Newton Real Return Fund	3,994	3,453
	3,994	3,453
Bonds		
Newton Index Linked Gilt Fund	1,060	872
Newton Long Corporate Bond Fund	3,891	3,878
	4,951	4,750
Cash and net current assets	45	14
Total	8,990	8,217

# Duchy of Lancaster

## Notes to the accounts (continued)

### 20. Retirement benefit obligations (continued)

#### Characteristics of the Scheme and the risks associated with the Scheme

##### (a) Information about the characteristics of the Scheme

- (i) The Scheme provides pensions in retirement and death benefits to members. Pension benefits are linked to a member's final salary and their length of service.
- (ii) The Scheme is a registered scheme under UK legislation and the Salaried Staff Section is contracted out of the State Second Pension.

The Scheme is subject to the scheme funding requirements outlined in UK legislation. The last scheme funding valuation of the Scheme was at 31 March 2012 and revealed a deficit of £2,714,000. In the recovery plan dated 7 November 2012 the Duchy agreed to pay contributions of £261,600 per annum (increasing annually at 3% per annum) with the view to eliminating the shortfall by 31 March 2022. A scheme funding valuation of the Scheme as at 31 March 2015 is currently being undertaken.

Under rule 23 of the Scheme's trust deed and rules dated 31 March 1995, the Duchy has a right to a refund of any surplus in the Scheme if the Scheme winds up, although the Trustees do have the power to augment benefits before any surplus is paid to the Duchy. However, given that the power to wind up the Scheme lies with the Duchy, there is no additional liability recognised on the balance sheet as a result of the recovery plan dated 7 November 2012.

- (iii) The Scheme was established from 1 April 1995 under trust and is governed by the Scheme's trust deed and rules dated 31 March 1995. The Trustees are responsible for the operation and the governance of the Scheme, including making decisions regarding the Scheme's funding and investment strategy in conjunction with the Duchy.

##### (b) Information about the risks associated with the Scheme

The ultimate cost of the Scheme to the Duchy will depend upon actual future events rather than the assumptions made. Many of the assumptions made are unlikely to be borne out in practice and as such the cost of the Scheme may be higher (or lower) than disclosed.

In general, the risk to the Duchy is that the assumptions underlying the disclosures, or the calculation of contribution requirements, are not borne out in practice and the cost to the Duchy is higher than expected. This could result in higher contributions required from the Duchy and a higher deficit disclosed. This may also impact the Duchy's ability to grant discretionary benefits or other enhancements to members.

More specifically, the assumptions not being borne out in practice could include:

- (i) The return on the Scheme's assets being lower than assumed, resulting in an unaffordable increase in the required Duchy contribution rate.
- (ii) Falls in asset values (particularly equities) not being matched by similar falls in the value of liabilities.
- (iii) Unanticipated future changes in mortality patterns leading to an increase in the Scheme's liabilities. Future mortality rates cannot be predicted with certainty. This is especially so bearing in mind that the youngest Plan members could be expected to still be alive in 60 years or more and it is not possible to reliably predict what medical advances may or may not have occurred by this time.
- (iv) The potential exercise (by members or others) of options against the Scheme.
- (v) The relatively small number of Scheme members is likely to lead to particular volatility in the deficit and the Duchy contributions as the future demographic experience of such a group is more uncertain than would be the case for a larger group.

The Employer may also wish to consider the risk that the assumptions underlying the disclosures are not borne out in practice and the cost to the Duchy is lower than expected. This could lead to a surplus in the Scheme which is not recoverable by the Duchy.

# Duchy of Lancaster

## Notes to the accounts (continued)

### 20. Retirement benefit obligations (continued)

#### (c) Information about any amendments, curtailments or settlements

There have been no amendments, curtailments or settlements over the financial year.

#### The Scheme's investment strategy

The Scheme's investment strategy is to invest broadly 40% in return-seeking assets and 60% in matching assets (mainly government bonds). This strategy is overweight in (well diversified) return-seeking assets when compared to the Scheme's liability profile, but is consistent with the Trustees' and Duchy's attitude to risk.

#### Sensitivity analysis

The results in the disclosures are inherently volatile, particularly the figures shown on the balance sheet. The results disclosures are dependent on the assumptions chosen by the Trustees. The following table sets out the sensitivity of the balance sheet position to changes in assumptions.

Change in liabilities	31 March 2015
Discount rate +1.0%	-14%
Inflation rate (CPI) + 0.2%	+2%
Mortality (increase life expectancy by 1 year)	+4%

#### Expected future cashflows to and from the Plan

The Scheme is subject to the scheme funding requirements outlined in UK legislation. The last scheme funding valuation of the Scheme was at 31 March 2012 and revealed a funding deficit of £2,714,000. In the recovery plan dated 7 November 2012 the Duchy has agreed to pay £261,600 per annum (increasing annually at 3% per annum) with the view to eliminating the shortfall by 31 March 2022.

In accordance with the schedule of contributions dated 7 November 2012 the Duchy is expected to pay contributions of £326,113 over the next accounting period. This includes £279,613 for payments under the recovery plan and a fixed annual amount of £46,500 for the accrual of benefits and insurance premiums for death in service lump sums for active members.

In addition, the Duchy is expected to meet the cost of administrative expenses and Pension Protection Fund levies for the Scheme.

The liabilities of the Scheme are based upon the current value of expected benefit payment cashflows to members of the Scheme over the next 60 or so years. The average duration of the liabilities is approximately 14 years.

# Duchy of Lancaster

## Notes to the accounts (continued)

### 21. Fair value measurements

The following table sets out the Duchy's assets and liabilities that are measured and recognised at fair value at 31 March 2015.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
<b>Financial assets</b>				
Available-for-sale equity securities	57,117	7,465	–	64,582
<b>Total recurring financial assets</b>	57,117	7,465	–	64,582
<b>Financial liabilities</b>				
Interest rate swaps	–	1,645	–	1,645
<b>Total recurring financial liabilities</b>	–	1,645	–	1,645
<b>Non-financial assets:</b>				
Investment properties	–	–	462,655	462,655
Owner occupied properties	–	–	3,944	3,944
<b>Total recurring non-financial assets</b>	–	–	466,599	466,599
<b>Non-recurring fair value measurement:</b>				
Property held for sale	–	–	2,416	2,416
<b>Total non-recurring assets</b>	–	–	2,416	2,416

The Duchy has measured land at fair value on a non-recurring basis as a result of the reclassification of the land as held for sale.

There have been no transfers between level 1 and level 2 recurring fair value measurements during the year.

The Duchy's policy is to recognise transfers into and out of the different fair value hierarchy levels at the date the event or change in circumstances that caused the transfer occurred.

The following table sets out the total gains or losses for the period included in profit or loss that is attributable to the changes in unrealised gains or loss relating to those assets and liabilities held at the end of the reporting period that is included in gains/(losses) recognised in other income.

	Unlisted equity securities £'000	Investment property £'000	Owner occupied property £'000	Total £'000
<b>Unrealised gains recognised in profit or loss attributable to assets held at the end of the reporting period</b>	–	27,223	738	27,961



# Duchy of Lancaster

## Notes to the accounts (continued)

### 21. Fair value measurements (continued)

The following table sets out the valuation techniques used in the determination of fair values within Level 3 including the key unobservable inputs used and the relationship between unobservable inputs to fair value

Item and Valuation approach	Key unobservable inputs	Relationship between unobservable inputs to fair value
<p><b>Investment property</b> Fair value has been determined by a range of recognised valuation methodologies depending on the nature of the individual properties. As shown in note 12 most of the properties have been valued by external professionally qualified valuers.</p> <p>The methodologies applied by the valuers include the following:</p> <p><b>Investment Method:</b> An assessment is made on the basis of a collation and analysis of appropriate comparable investment, rental and sale transactions, together with evidence of demand within the vicinity of the subject property. With the benefit of such transactions these are then applied to the property, taking into account size, location, terms, covenant and other material factors.</p> <p><b>Residual Method:</b> The market value of the site in its existing condition is arrived at using the residual method which is a generally accepted method for valuing properties that are considered to have possible development potential. Having formed an opinion of the value of the completed development (Gross Development Value), using the Investment Method described above, it is deducted from the total costs of development and an allowance for developer's profit.</p>	<p>Market rents are assessed on a tenant by tenant basis, taking into account significant variation between location, sector, size and quality.</p> <p>The estimated market value of a completed project, development costs and expected appreciation in the price.</p>	<p>The higher the discount rate, terminal yield and expected vacancy rate the lower the fair value.</p> <p>The lower the development costs the greater the anticipated market value.</p>

The fair values of trade receivables and payables, short-term investments, unsecured bank overdrafts and cash and cash equivalents are assumed to approximate to cost due to the short-term maturity of the instruments and as the impact of discounting is not significant.

# Duchy of Lancaster

## Notes to the accounts (continued)

### 21. Fair value measurements (continued)

The following table sets out the valuation technique used in determination of fair values within Level 2 including the key inputs used.

Item	Valuation approach and inputs used
<b>Financial Assets</b>	The fair values of financial assets and financial liabilities have been determined with reference to available market information at the balance sheet date. Level 2
<b>Interest rate swaps</b>	Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contracted interest rates, discounted at a rate that reflects the credit risk of various counterparties. Level 2

### 22. Reconciliation of Revenue account operating surplus to net cash inflow from operating activities

	2015 £'000	2014 £'000
Net surplus on Revenue account	16,562	14,564
Adjusted for:		
Depreciation	21	30
Current service costs less contributions to pension scheme	(216)	(226)
Net finance income	(1,482)	(1,558)
Net income from escheats	1	15
Repayments to Capital	23	163
(Increase)/decrease in valuation of other financial investments	(518)	91
Loss on disposal of property, plant and equipment	2	–
Increase in receivables	(347)	(818)
Decrease in payables	23,219	1,044
Net cash inflow from operating activities	37,265	13,305

### 23. Related party transactions

Charitable donations of £2,471,000 (2014: £842,000) were made to the Duchy of Lancaster Jubilee Trust arising from the surplus receipts of bona vacantia (see note 9). All Council members except the Chief Finance Officer act as trustees of the Duchy of Lancaster Jubilee Trust.

During the year, the Duchy of Lancaster sold 5 residential properties to the Duke of Lancaster Housing Trust for £1,082,000. A further 3 residential properties have been sold to the Duke of Lancaster Housing Trust since the year end and are included in Investment property assets held for sale (Note 15) at 31 March 2015 for £300,000.

# Duchy of Lancaster

## Notes to the accounts (continued)

### 24. Financial risk management

A review of the Duchy's financial risks is set out in the Strategic Report on pages 11 to 12.

#### **Market risk**

The Duchy's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Duchy to cash flow interest rate risk. Borrowings issued at fixed rates expose the Duchy to fair value interest rate risk.

The Duchy analyses its interest rate exposure on a periodic basis. In particular when entering into a new swap agreement various scenarios are considered to understand the effect that a change in the base rates would have on both interest rate risk and fair value interest rate risk.

The Duchy manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. The Duchy has set policies as to the proportion of its borrowings against which interest rate swaps must be taken out in order to mitigate its interest rate risk.

#### **Liquidity risk**

Although current liabilities are in excess of current assets, the majority of the Duchy's financial liabilities all fall due within one year and notes 17-20 provide further details of these liabilities. The Duchy continually monitors its liquidity position through cashflow forecasts. It is not possible to state the maturity profile of the Duchy's Late Claims Fund provision (see Note 19) and its retirement benefit obligations (see Note 20) due to uncertain timing of their potential crystallisation.

#### **Credit risk**

The Duchy uses external investment consultants to assess the credit quality of banks and financial institutions based on their financial position, experience of past performance and other factors as deemed relevant. As set out in note 16 there is no significant concentration of credit risk with respect to trade receivables as the Duchy has a large number of tenants.

#### **Capital management**

The Duchy continually monitors its financial situation by means of regular management information and accounts. This ensures that the covenants in relation to the bank loan facility are adhered to.

### 25. Capital commitments

As at 31 March 2015 the Duchy had entered into contracts for major improvements works that gave rise to a capital commitment of £1.489m.

# Duchy of Lancaster

## Duchy of Lancaster Rural Surveys

The Duchy of Lancaster Rural Surveys totalling approximately 18,400 hectares are located as follows:

	Hectares
<b>The Staffordshire Survey</b>	<b>2,995</b>
Needwood estate	
<b>The Cheshire Survey</b>	<b>1,415</b>
Crewe estate	
Marbury estate	
<b>The Lancashire Survey</b>	<b>3,849</b>
Whitewell estate	
Myerscough estate	
Wyreside estate	
Salwick estate	
<b>The Yorkshire Survey</b>	<b>6,792</b>
Cloughton estate	
Pickering estate	
Marishes estate	
Goathland estate	
Pontefract estate	
<b>The Southern Survey</b>	<b>3,382</b>
Higham Ferrers estate	
Castleton estate	
Ogmore estate	
Lincolnshire estate	
	<b>18,433</b>

# Duchy of Lancaster

## Accounts of the Solicitor for the Affairs of the Duchy of Lancaster for the year ended 30 September 2014

The accounts of the Solicitor for the Affairs of the Duchy of Lancaster are not part of the accounts of the Duchy of Lancaster and are included for information. During the year 283 intestate estates (2013: 293) and 2,403 dissolved companies (2013: 1,621) were formally reported.

### Income and expenditure account for the year ended 30 September 2014

	2014 £
<b>Income</b>	
Monies received from dissolved companies	3,352,461
Monies received from intestate estates	3,000,109
Interest and other	16,009
Monies received	6,368,579
<b>Expenditure</b>	
Payments to next of kin	(911,761)
Company restoration	(1,164,138)
Ex-gratia payments to claimants	(89,228)
Administration costs	(756,933)
Net income less expenditure	3,446,519
Paid to the Duchy of Lancaster	(3,115,824)
Net income for the year ended 30 September 2014	330,695
Cash balances at 1 October 2013	4,023,431
Net income for the year ended 30 September 2014	330,695
Cash balances at 30 September 2014	4,354,126

### Balance sheet as at 30 September 2014

	2014 £
<b>Current assets</b>	
Cash and deposits	4,354,126
	4,354,126
<b>Current liabilities</b>	
The Duchy of Lancaster	(2,201,453)
Other creditors	(108,033)
	(2,309,486)
<b>Total assets less current liabilities</b>	2,044,640
Representing:	
Estates under administration	2,044,640



# Duchy of Lancaster

## Accounts direction given by HM Treasury

### Operating Review

1. The Duchy of Lancaster shall prepare accounts for the financial year ended 31 March 2014 and subsequent financial years comprising:

- a Report of Council including a Governance Statement;
- a revenue account statement of comprehensive income;
- a capital account statement of comprehensive income, with a reconciliation of movements in the capital account;
- a balance sheet; and
- a cash flow statement.

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

2. 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 the state of affairs as at the end of the financial year. Subject to these requirements and the exemptions set out in Schedule 1, the accounts shall be prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

3. The application of the accounting and disclosure requirements of the Companies Act 2006 (CA), accounting standards, and other disclosure requirements is given in Schedule 1 attached.

4. This direction supersedes that of March 2012. It shall be reproduced as an appendix to the accounts.

Paula Diggle  
Treasury Officer of Accounts

May 2014

# Duchy of Lancaster

## Schedule 1 – Accounting and disclosure requirements

### Companies Act 2006

1. The disclosure exemptions permitted by the CA shall not apply to the Duchy of Lancaster unless specifically approved by the Treasury.
2. The CA requires certain information to be disclosed in the Directors' Report. To the extent that it is appropriate, information relating to the Duchy shall be contained in the Report of Council for the year, which shall be signed and dated by the Clerk of the Council or other Proper Officer.
3. The Duchy shall take into consideration the CA requirements as they apply to non-listed companies (to the extent that they can be applied in the circumstances of the Duchy).
4. When preparing its revenue account, the Duchy shall take into consideration the requirements of the profit and loss account format 2 prescribed in statutory instruments 2008 No 410 (SI20081410), Schedule 1 Part 1.
5. When preparing its balance sheet, the Duchy shall take into consideration the requirements of the balance sheet format 1 prescribed in Schedule 1 Part 1 of SI20081410, subject to the exceptions listed below. The balance sheet totals shall be struck at "Net Assets" and the balance sheet shall be signed by the Clerk of the Council or other Proper Officer.
6. The Duchy is not required to provide the historical cost information described in paragraph 34(3) of Schedule 1 Part 1 of SI20081410.
7. The Duchy is not required to comply with the requirement specified in paragraph 35 of Schedule 1 Part 1 of SI20081410 to maintain a revaluation reserve.

### Accounting standards

8. It is considered that the Duchy should prepare separate statements of comprehensive income for both the revenue and capital accounts rather than one statement of comprehensive income as required by IAS 1.

### Other disclosure requirements

9. The Report of Council shall, inter alia:
  - state that the accounts have been prepared in accordance with this Treasury direction;
  - include a brief history of the Duchy and its statutory background, and identify its estates by county and area;
  - include a resume of the powers delegated to the Council and those retained by the Chancellor of the Duchy of Lancaster over and above those delegated to the Council;
  - provide information concerning the Duchy's charitable and other activities and the principles supporting them. The information should also indicate where copies of the accounts of the charities may be obtained.
10. The notes to the accounts shall, inter alia:
  - distinguish between the Capital and Revenue elements of the consolidated statements and disclose amounts owing from Revenue to Capital for permanent improvements (including the repayment profile) and depreciation rates;
  - disclose the names and qualifications of the valuers, both internal and external;
  - where it arises, provide details of the terms of any loan from the capital account for revenue purposes, and the purpose for which it is required, together with explicit assurance that the loan is not being used to inflate the revenue surplus payable;
  - provide details of the remuneration package of the Chancellor of the Duchy of Lancaster and each Council member, together with a note of the pension contributions made in respect of Council members.
11. A formal valuation of the pension scheme was undertaken in 2012 and the contribution rate subsequently adjusted to ensure that the deficit is forecast to be made good within the term recommended by the actuary and agreed by the Council and trustees after discussion with HM Treasury. Accordingly, the pension reserve required by IAS 19 shall be a separate non-distributable reserve within the revenue account balance sheet. The next formal valuation of the pension scheme will be undertaken during 2015.



DUCHY *of* LANCASTER

## Annual Report

Report and accounts of the Duchy of Lancaster  
for the year ended 31 March 2015

[www.duchyoflancaster.co.uk](http://www.duchyoflancaster.co.uk)

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