



DUCHY *of* LANCASTER

2013





Duchy of Lancaster
Report and accounts of the Duchy of Lancaster for the year ended
31 March 2013

Presented to Parliament pursuant to Section 2 of the Duchies of Lancaster and Cornwall (Accounts) Act 1838

Duchy of Lancaster

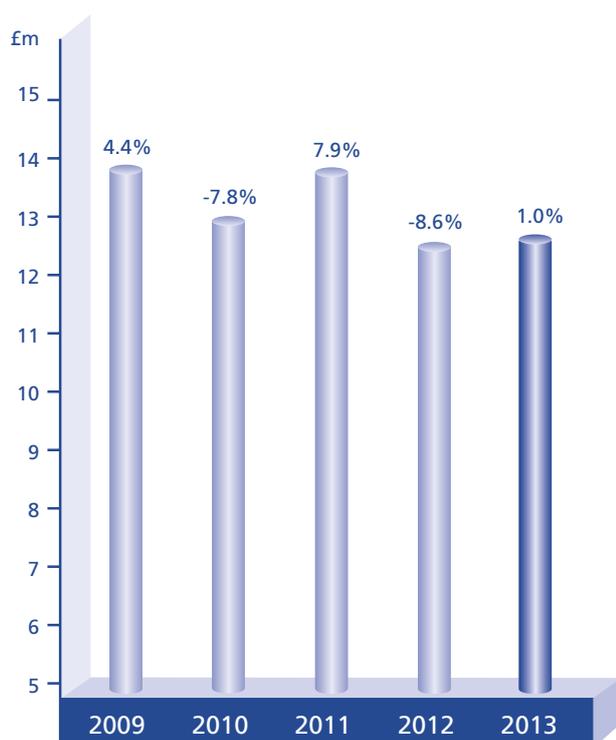
Financial Highlights for the year to 31 March 2013

Revenue	2013 £m	2012 £m	Change %
• Total gross income	18.66	18.06	+3.3%
• Net operating income	12.80	12.68	+1.0%
• Surplus payable to the Keeper of the Privy Purse	12.50	12.87	-2.8%

Capital	2013 £m	2012 £m	Change %
• Total capital value	428.34	405.34	+5.7%

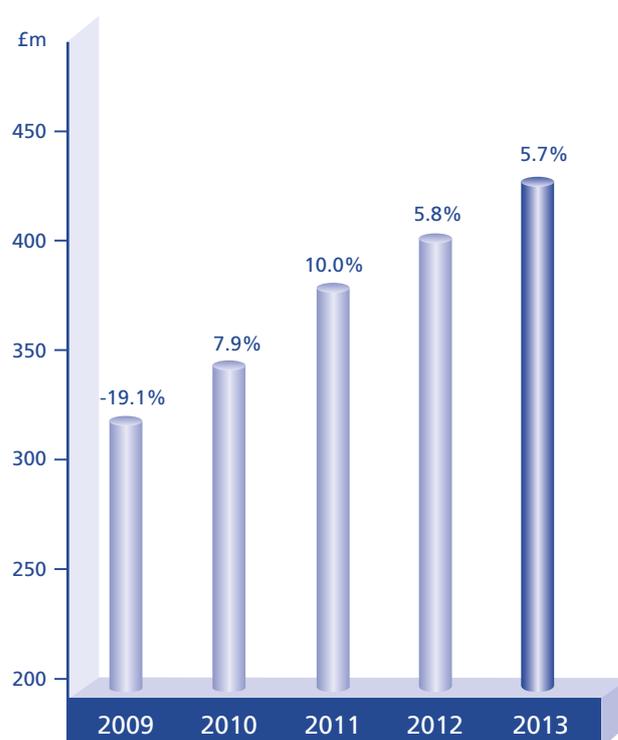
Net Operating Income (£m)

Change over previous year (%)



Total Capital Value (£m)

Change over previous year (%)



Duchy of Lancaster

Chairman's Report

Chief Executive and Clerk of the Council

Paul Clarke was appointed Chief Executive and Clerk of the Council of the Duchy of Lancaster in 2000. As he retires from that position in the summer of 2013, I and all members of Council place on record our thanks and congratulations to him for an outstanding period of office during which the Duchy has made significant progress as a business, has experienced much change as an organisation, but has remained true to its essence, as an historic private estate providing a sustainable income for the Monarch.

Progress of the Duchy as a business is clear from the statistics. At the end of 2000/01, Net Operating Income was £6.6m; at the end of 2012/13, it was £12.8m, with a high point of £13.9m in both 2008/09 and 2010/2011. Over the same period, the capital value of the Duchy's assets has more than doubled from £206m to £428m.



Paul Clarke CVO

Changes in the organisation initiated during Paul Clarke's time are evident in two main areas. First, the Duchy now has 16 employees, as against 40 in 2000. There has been a switch away from in-house staff to the employment of outside professionals, such as external firms of chartered surveyors to manage the Surveys. Second, the Duchy Council, an advisory body in 2000, now operates in the manner of a company board under powers delegated to it by the Chancellor, thereby creating a different and more effective relationship between it and the Chief Executive.

Paul has however successfully devoted much effort to reinforcing the tradition of the Duchy as a long-held

private landed estate. The historic perspective has always been considered as decisions have been taken. For example, while some lesser quality agricultural land has been sold, other farmland has been purchased in order to upgrade the portfolio and to maintain the investment in a sector which has served the Duchy so well over centuries. At the same time, historic responsibilities for a number of properties such as Lancaster Castle and The Queen's Chapel of the Savoy have been continued even when short-term financial considerations might have suggested otherwise.

Paul Clarke's time as Chief Executive and Clerk of the Council is one of which he can be very proud. He has assembled a strong team and his leadership has delivered a period of excellent achievement in a sometimes difficult economic climate. Paul has made many friends in the Duchy, and amongst its tenants and others doing business with it. He will be much missed. We all wish him and his wife Vanessa, who has given him stalwart support throughout, all the very best for the future.

Shuttleworth

Duchy of Lancaster

Report of Council

Operating Review 2013

Introduction

The last year has been a memorable one for this country with the celebrations for the Diamond Jubilee of the reign of Her Majesty The Queen and the sporting success for Team GB at the London Olympics. While nowhere near the same scale, the Duchy of Lancaster has also had a year to remember with the completion of both the refurbishment of Wellington House and the extension and improvements to The Queen's Chapel of the Savoy. In our own way we celebrated the Diamond Jubilee with the unveiling by Her Majesty of a new stained glass window in commemoration of Her sixty years on the throne.



*Her Majesty The Queen
Outside the Queen's Chapel of the Savoy*

Meanwhile, in the cold realities of the investment market, the world was divided into a number of distinctly differing areas of performance. The Central London market continued to progress in the commercial and residential sectors with good prospects for prime retail, while the regional office market found the going tough both in terms of occupier and investment demand. The gap between prime and secondary yields is wide, with low interest rates tempering the need for forced sales but a lack of debt finance causing some major disposals due to the inability to refinance. The farming sector had a difficult year in terms of the weather with crops rotting in the ground and animals having to be housed for far longer than expected with the consequential effect of lack of stored feed and high costs for buying in fodder. Despite these difficulties,

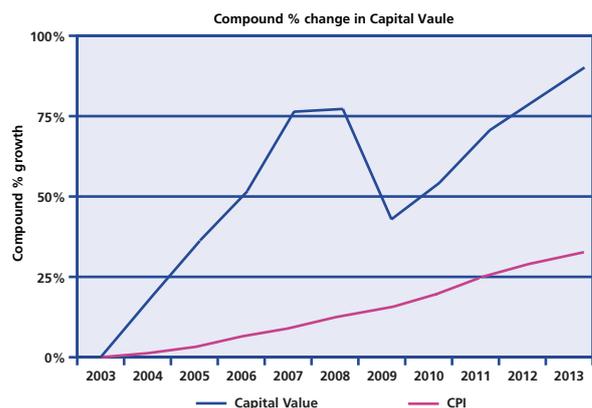
the agricultural land market continues its climb towards record prices for good, versatile land. Market rents saw substantial increases with a discernible sense of cautious optimism despite all the difficulties that this resourceful and determined industry has had to face. We have commented on this before, but it is testament to the quality of our farming tenants that their businesses continue, in the main, to grow and become ever more efficient in their method of working.

Financial Review

Net Operating Income has increased in the year by 1.0% to £12.8m (2012: £12.7m). The Net Surplus delivered to the Keeper of the Privy Purse, however, decreased by 2.8% to £12.5m (2012: £12.9m). The performance for the year has been relatively flat as major redevelopment and refurbishment projects have been undertaken. However, the Duchy should reap the benefits of this significant capital investment over the years to come. Despite the continued economic slowdown, voids have remained low as have tenant failures. We believe that this reflects the high and improving quality of our tenants across the property portfolio. The underlying results still remain solid across all the portfolios, showing particularly good income returns from the financial and commercial portfolios.

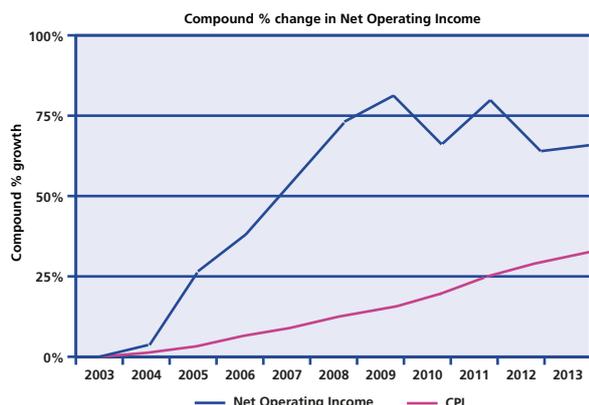
Capital growth has been encouraging, with an increase in Net Asset Value (NAV) of 5.7% to £428.3m (2012: £405.3m), which is another record high for the Duchy. The continued recovery from 2009 has again been shared across all parts of the portfolio but with a notable contribution from the agricultural portfolio.

The performance over the last ten years remains satisfactory, seeing net income grow by 63%, and capital has grown by 88% over the same ten year timeframe.



Duchy of Lancaster

Report of Council (continued)



Liquidity and the Financial Portfolio

The Duchy consistently remains fully invested so does not have significant cash reserves. Although long term strategic asset allocation targets and quality improvement objectives are the main drivers of the sales and purchases programme, we will still take advantage of any opportunistic purchases if they are appropriate for the improvement of performance. The Duchy has maintained its borrowing levels at £31m (7.2% of NAV) and has continued to benefit from historically low rates of interest throughout the period.

The financial portfolio, as well as providing a significant income for the Duchy, remains the major source of liquidity. The management of the quoted portfolio has been placed in the hands of a single manager, Newton Investment Management, which has helped to enhance accountability and reduce administration. In addition, Stanhope Jewson continue to act as our investment consultants to maintain an independent watch over the whole of the financial portfolio. This arrangement continues to work well with total return for the year of 17.3%.

Asset Management

The refurbishment of Wellington House, London was completed on time and on budget (£8.5m) with, at the time of writing, five floors of the seven let and two floors vacant. Rents achieved have been consistent with the forecasts provided at the commencement of the project. We welcome all our new tenants to this building and hope that we will have a long relationship with them over the coming years.

Following the re-gearing of the Harrogate Ladies College lease reported last year, a strategic review of the Harrogate Estate was undertaken to formulate a long term approach to this important holding of the Duchy. Terms were agreed for the extension of the

lease to BUPA for its care home at 9 Ripon Road and the Duchy is undertaking the refurbishment of 11 Ripon Road to provide four residential apartments to the front, together with a further nine flats in a newly constructed building to the rear.



*Wellington House
Savoy Estate, London*

These will be completed to a high quality with the design of the newly built element seeking to complement the architectural vernacular of the surrounding buildings. Undertaking such projects is a departure from the former approach to this estate where opportunities for development were sold to speculative developers. We believe that the historical link with the town provides a good platform for further investment to strengthen our position in one of the most economically vibrant locations in Yorkshire.

The Urban portfolio provides some 58% (£9.1m pa) of our revenue but of that £3.5m is from commercial properties outside the centre of London where, as mentioned above, the market has been challenging. The portfolio's low vacancy rate has been achieved by the constant monitoring of tenants' needs and their financial strength. A flexible approach to our tenants

Duchy of Lancaster

Report of Council (continued)

has produced this commendably low void rate and, as a result, a reduced level of consequential costs relating to such voids.

The focus for the Rural portfolios has been the strategic rebalancing of the portfolio and the long term planning of individual estates with the ever changing modes of farming and food production. The supply chain for mass produced food has been found wanting in recent months and the general public have taken note of this, questioning traceability and quality. This can only be to the good for farmers such as our tenants who strive to place high quality products into the UK food chain.

There is a continuing programme of sales of peripheral or poorer quality land and buildings to provide funds for the purchase of a better grade of land that will provide higher yields and diversify the types of agriculture being undertaken on the Duchy holdings. Building on the purchase last year of Park Farm (Lincolnshire) we bought Drayton House Farm to add a further 243 acres in the vicinity of the one thousand acres at Park Farm. In addition, land continues to be sold for development with the agreement of terms for the sale of 7 acres at Higham Ferrers (Northamptonshire) for the construction of around 90 homes.

Sales for the year totalled £6.4m while purchases amounted to £4.0m. This programme will continue for the next few years to concentrate upon core estates within the rural portfolio to ensure efficient management and a spread of risk through exposure to diversified forms of agricultural activity.

Following the refusal of planning consent by Scarborough Borough Council for the carefully planned expansion of Cloughton Village, discussions are proceeding well to develop around twenty housing units at the steading of Town Farm. Simultaneously, the derelict farm house and buildings at Townhouse Farm (Crewe) are being considered for a full restoration to provide a new steading for a major restructured agricultural holding on this Estate.

At times, in an ever changing agricultural and financial environment, difficult decisions have to be taken by the Duchy and our tenants as to their future in the industry. The Duchy prides itself on its willingness and approachability to discuss these difficult issues in an open and equitable manner.



Drayton House Farm, Lincolnshire

The development at Scalby Lodge Farm (Yorkshire) has been completed providing eleven holiday cottages on the Cleveland Way, just north of Scarborough. The quality of the accommodation and the setting in an elevated position make this a much sought after destination for holidaymakers. In the first few months bookings have been encouraging and we look forward to welcoming an increasing number of visitors over the coming months and years.



*Scalby Lodge Holiday Cottages
Cloughton, Yorkshire*

Duchy of Lancaster

Report of Council (continued)

The conversion of the redundant Meremoor Barns, Crewe was completed to provide four new homes. All were swiftly let to an eager market for good quality rural housing.

The central government's policy of encouraging growth through employment and increased housing numbers has been grasped by Cheshire East Council in promoting its own ambitious target of restoring Crewe's position as an economic powerhouse in the Northwest. The Council has sought to provide a significant number of new homes and new jobs within the period to 2030. A review of the potential for the Crewe estate to make a sustainable commitment to this policy has been undertaken. Submissions have been made for the consideration of Cheshire East and the community. The Duchy, as a long term land owner, is only too aware that to provide the housing and employment to satisfy the needs of future generations, there can be the necessity to seek the change of use of land.

Lancaster Castle has provided a different sort of challenge for the Duchy, to identify what future uses might be appropriate within this important historic building. We have worked with consultants to investigate the architectural history and identify those areas of significance. The scoping exercise identified a selection of potential uses including hotel, museum, offices, educational and residential accommodation. Community consultation has been undertaken culminating in a week long public exhibition which confirmed that our initial thoughts had the overwhelming support of those who attended. We are about to test the operational and commercial demands. Works to remove many modern additions to open up the fabric of the historic building have been completed. During the coming year major works of repair and restoration will be undertaken to roofs and curtain walling to place the castle in a good wind and weather tight condition.



Views of Lancaster Castle

The charitable activities have continued over the year with the Benevolent Fund maintaining its donations to a cross section of causes both within the County Palatine and in locations where the Duchy has historical or landed interests. In addition, the Benevolent Fund made a donation of £20,000 to Farming Help in order to assist farmers struggling through the extreme weather.

Duchy of Lancaster

Report of Council (continued)

Farming Help brings together the three national charities, the Royal Agricultural Benevolent Institution, Farm Community Network and the Addington Fund which provide complementary forms of help and support to benefit the farming community. The Duke of Lancaster Housing Trust completed its rural affordable housing scheme at Dunsop Bridge (Lancashire) and twelve families have moved into the new homes. Planning is still being investigated for two further schemes on the Needwood and Yorkshire Surveys.



*Dunsop Bridge Affordable Housing
Whitewell Estate, Lancashire*

The major works to The Queen's Chapel of the Savoy were completed with the installation of a new stained glass window designed by Douglas Hogg to celebrate the Diamond Jubilee. Her Majesty unveiled the window and inspected the improvements which have made the Chapel much more attractive to the congregation and visitors for services and receptions. The service for new members of the Royal Victorian Order (which is served by the Chapel) was held in November.

Outlook for 2013/4 and beyond

The Duchy has weathered the period since the financial crash well. The rate of growth has steadied, but the pre-crisis levels were probably unsustainable in the longer term. We have taken the opportunity during that period to undertake refurbishments and planning investigations to position the Duchy for the future improvement in the underlying economy. We believe that we stand prepared for a strong future for the Duchy portfolio in terms of both income and capital performance. There are some exciting opportunities in prospect, not least Crewe, where the Duchy can have a lasting effect on the prospects for that town and the environment that surrounds it. Similarly, the improvement in the quality of buildings and land, the covenant strength of occupying tenants and the lease terms point towards a sound foundation for the next few years.

Duchy of Lancaster

Report of Council (continued)

Constitution and Review of Governance

Background

The estates and assets of the Duchy of Lancaster are defined by Charter, granted by Henry IV upon taking the throne in 1399, as a separate inheritance from the Crown Estate and to be administered independently from those estates. The revenues are payable to the Sovereign.

The Duchy is a body incorporated by Charter in 1461 which is both an owner of property and the medium through which certain Palatine rights and responsibilities are exercised in Lancashire, Greater Manchester and Merseyside. Its origins lie in the grant of lands to Edmund, the first Earl of Lancaster, in 1265 and in the elevation of Lancaster to a County Palatine in 1351.

The Duchy manages the property and investments in its ownership and discharges the administrative duties associated with the Duchy's Palatinate rights and responsibilities in Lancashire, Greater Manchester and Merseyside. The net revenues from property and investments are paid to the Keeper of the Privy Purse for Her Majesty The Queen. The Duchy is not subject to Corporation Tax as it is not a separate legal entity for tax purposes; however, Her Majesty The Queen voluntarily pays Income Tax on Revenue received from the Duchy.

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 Duchy of Cornwall and Duchy of Lancaster 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.

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, constituted in 1993, makes donations to a wide range of charitable causes primarily within the County Palatine. The Duchy of Lancaster Jubilee Trust was constituted in 2001 to benefit charitable causes in all areas associated with the Duchy. The Duke of Lancaster Housing Trust was constituted in 2007 to provide affordable rural housing initially within estates in the ownership of the Duchy. The accounts of these funds are published separately and are available from the Charity Commission and from the Duchy Office.

Political and charitable donations

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

Payment policy

It is the policy of the Duchy of Lancaster to pay its suppliers by the due date specific to each transaction. The effect of this policy is that the average period between invoice date and payment date was 29 days (2012: 29 days).

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 Lord Hill of Oareford (appointed 9 January 2013) succeeding the Rt Hon Lord Strathclyde (retired 9 January 2013).

The Proper Officers are responsible for the preparation of accounts which are submitted to the Treasury and presented to both Houses of Parliament. The accounts are prepared in compliance with the Treasury Direction set out on pages 34-35.

The Chancellor has designated the members of the Duchy of Lancaster Council 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.

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 then Chancellor revocably

Duchy of Lancaster

Report of Council (continued)

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 2012 were:

- Lord Shuttleworth KCVO (Chairman of the Council)
- Mr Paul Clarke CVO (Chief Executive and Clerk of the Council)
- Sir Alan Reid GCVO (The Receiver General)
- Mr Robert Hildyard QC (The Attorney General) – retired 2 April 2012
- Mr Robert Miles QC (The Attorney General) – appointed 2 April 2012
- Ms Anne Richards
- Mr Hugh Seaborn
- Mr Mark Hudson
- Mr Christopher Adcock
- Mr Martin Beaumont

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

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 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 Committee, with overview by Council, to ensure that they remain effective and appropriate to the activities of the Duchy.

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 of Lancaster 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 of Lancaster. A full compliance statement is produced internally and annually reviewed by Council. The only sub committee 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;
- regular reviews of periodic and annual financial reports which indicate financial performance against forecasts;
- setting targets to measure financial and other performance;

Duchy of Lancaster

Report of Council (continued)

- physical and computer security procedures and contingency planning; and
- risk assessment reviews.

Principal risks and uncertainties

The Duchy seeks to ensure that the risks encountered by it are identified, quantified where possible, understood and managed appropriately. A comprehensive risk register has been prepared and 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 principal risks faced by the Duchy are shown below.

- **Strategic risk**
The Duchy carries out a five year strategic review and budget and prepares rolling forecasts on a quarterly basis. In addition, a 2025 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 performed 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 a robust evaluation process and seeks to manage the development cycle including obtaining planning consents and controlling the construction process. Construction risk is managed in-house using external advisors and contractors as appropriate.
- **Investment 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. The Proper Officers are responsible for ensuring that an effective system of internal financial controls is maintained and operated by the Duchy. The Proper Officers' review of the system of these controls is informed by comments made by the external auditors in their management letter and other reports.

- **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.

Shuttleworth
Paul R Clarke
London
10 July 2013

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 2013 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 14 March 2012.

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 Officer's Responsibilities Statement on page 10, 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. 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 2013 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 14 March 2012; and
- have been prepared in accordance with the requirements of the Accounts Direction given by the Treasury dated 14 March 2012.

Opinion on other matter

In our opinion the information given in 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 14 March 2012 are not made; or
- we have not received all the information and explanations we require for our audit.

Nicholas Kelsey
(Senior Statutory Auditor)

For and on behalf of
Saffery Champness
Chartered Accountants
Statutory Auditors
London
10 July 2013

Duchy of Lancaster

Revenue Account Statement of Comprehensive Income

	Note	Year ended 31 March 2013 £'000	Year ended 31 March 2012 £'000
Revenue	2	15,859	15,129
Operating costs	3	(3,551)	(3,173)
Administrative expenses		(1,321)	(1,179)
Operating surplus		10,987	10,777
Finance income	5	2,805	2,935
Finance costs	6	(992)	(1,037)
Net operating income		12,800	12,675
Development expenditure		(492)	(607)
Development expenditure recovered from Capital		389	1,018
Net proceeds of bona vacantia	9	1,345	1,560
Payable to the Duchy of Lancaster charitable funds		(1,345)	(1,560)
Net surplus for the year		12,697	13,086
Other comprehensive income:			
Actuarial loss on retirement benefit obligations	20	(355)	(655)
Total comprehensive income on Revenue account		12,342	12,431

Capital Account Statement of Comprehensive Income

	Note	Year ended 31 March 2013 £'000	Year ended 31 March 2012 £'000
Net gain from fair value adjustment on investment property	12	17,265	22,643
Net gain/(loss) from fair value adjustment on other property	13	534	(8)
Net gain/(loss) on the revaluation of financial assets	14	5,302	(103)
Repayments to capital:			
Proportion of mineral royalties	3	117	96
Less recovery of Capital valuation fees		(58)	(54)
Net (expenditure)/income from escheats		(4)	5
Surplus for the year		23,156	22,579
Total comprehensive income on Capital account		23,156	22,579

The notes to the accounts on pages 17 to 31 are an integral part of these financial statements.

Duchy of Lancaster

Balance sheets

	Note	31 March 2013 £'000	31 March 2012 £'000
Assets			
Non-current assets			
Investment property	12	402,676	379,583
Property, plant and equipment	13	3,024	2,509
Financial assets	14	58,385	53,516
Total non-current assets		464,085	435,608
Current assets			
Investment property assets held for sale	15	6,033	2,967
Trade and other receivables	16	2,067	2,539
Cash and cash equivalents		7,895	17,880
Total current assets		15,995	23,386
Total assets		480,080	458,994
Liabilities			
Current liabilities			
Trade and other payables	17	(15,362)	(17,463)
Total current liabilities		(15,362)	(17,463)
Non-current liabilities			
Borrowings	18	(31,000)	(31,000)
Provisions	19	(4,110)	(4,079)
Retirement benefit obligations	20	(1,273)	(1,114)
Total non-current liabilities		(36,383)	(36,193)
Total liabilities		(51,745)	(53,656)
Net assets		428,335	405,338
Capital and reserves			
Capital Account		429,058	405,902
Revenue Account		475	279
Retirement benefit reserve	20	(1,198)	(843)
Total reserves		428,335	405,338

Shuttleworth
Paul R Clarke

10 July 2013

The notes to the accounts on pages 17 to 31 are an integral part of these financial statements.

Duchy of Lancaster

Statement of Changes in Capital and Reserves

		Capital account	Revenue account		Total
		Capital reserve	Revenue reserve	Retirement benefit reserve	
	Note	£'000	£'000	£'000	£'000
Balance as at 31 March 2011		383,323	58	(188)	383,193
Net surplus for the year		22,579	13,086		35,665
Other comprehensive income:					
Actuarial loss on retirement benefit obligations	20			(655)	(655)
Less amounts payable to the Privy Purse			(12,865)		(12,865)
Balance as at 31 March 2012		405,902	279	(843)	405,338
Net surplus for the year		23,156	12,697		35,853
Other comprehensive income:					
Actuarial gain on retirement benefit obligations	20			(355)	(355)
Less amounts payable to the Privy Purse			(12,501)		(12,501)
Balance as at 31 March 2013		429,058	475	(1,198)	428,335

Duchy of Lancaster

Statement of Cash Flows

	Note	Year ended 31 March 2013 £'000	Year ended 31 March 2012 £'000
Cash generated from operating activities	21	9,658	21,051
Interest paid		(992)	(1,037)
Net cash from operating activities		8,666	20,014
Cash flows from investing activities			
Purchase and improvement of investment property		(15,194)	(19,747)
Purchase of financial investments		(283)	(1,680)
Purchase of property, plant and equipment		(9)	(41)
Proceeds from disposal of investment properties		6,300	12,425
Proceeds from disposal of financial investments		895	10,416
Financial investment income		2,805	2,935
Net cash (outflow)/inflow from investing activities		(5,486)	4,308
Cash flows from financing activities			
Payments made to the Privy Purse		(13,165)	(13,276)
Increase in cash in the year		(9,985)	11,046
Cash and cash equivalents at start of year		17,880	6,834
Cash and cash equivalents at end of year		7,895	17,880

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 H M Treasury set out on pages 34-35.

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 34-35 and, except as disclosed in note 1 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 for the current financial period:

- IFRS 7 Financial Instruments: Disclosures 1 January 2013
- IFRS 9 Financial Instruments 1 January 2015
- IFRS 13 Fair Value Measurement 1 January 2013
- IAS 1 Presentation of Financial Statements (amended) 1 January 2013
- IAS 16 Property, Plant and Equipment (amended) 1 January 2013
- IAS 19 Employee Benefits (amended) 1 January 2013
- IAS 32 Financial Instruments: Presentation (amended) 1 January 2013

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

(b) 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.

(c) 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.

Duchy of Lancaster

Notes to the accounts (continued)

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.

(d) 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. The exception to this is the Savoy Chapel and Gardens which is included in the accounts at nominal value rather than fair value, this is because this property is considered to be in a different asset class to the other owner occupied properties, due to its very different nature and use.

No depreciation is provided in respect of these properties: Owner occupied property is maintained to a high standard and will continue to be so. As a result 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.

(e) 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.

(f) 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

(g) Woodlands

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

(h) 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.

(i) Mineral rents and royalties

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

(j) 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.

Duchy of Lancaster

Notes to the accounts (continued)

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.

(k) 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.

(l) 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 and the Duke of Lancaster Housing Trust, separate registered charities.

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 2012. The accounts of the Solicitor for the Affairs of the Duchy of Lancaster for the year ended 30 September 2012 are, for the purposes of information, set out on page 33.

(m) 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.

Duchy of Lancaster

Notes to the accounts (continued)

(n) Provisions

Provisions are recognised for legitimate claims on Estates declared to be bona vacantia and whose assets have already been distributed.

(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.

2. Revenue

	2013 £'000	2012 £'000
Income from Property		
Commercial	10,094	9,655
Agricultural	3,310	3,021
Residential	1,937	1,930
Mineral rents and royalties	381	270
Indirect property investment income	137	253
Total	15,859	15,129

3. Operating costs

	Repairs and other direct costs £'000	Repayments to Capital £'000	Total 2013 £'000	Total 2012 £'000
Expenditure on property				
Commercial	877	–	877	757
Agricultural	331	–	331	308
Residential	366	–	366	379
Mineral rents and royalties	–	117	117	96
	1,574	117	1,691	1,540
Staff costs, administration and professional fees	1,860	–	1,860	1,633
Total	3,434	117	3,551	3,173

Duchy of Lancaster

Notes to the accounts (continued)

4. Leasing: Operating leases with tenants

The Duchy of Lancaster leases out all of its investment properties under operating leases with, on average, 27 years remaining to expiry. The aggregate minimum rentals, excluding contingent rents, receivable under non-cancellable leases are as follows:

	2013 £'000	2012 £'000
Less than one year	10,730	11,199
Between two to five years	34,506	33,986
After five years	129,518	115,236
	174,754	160,421

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

	2013 £'000	2012 £'000
Contingent rents receivable	240	240

5. Finance income

	2013 £'000	2012 £'000
Interest on other fixed interest stocks and unit trusts	709	571
Income from financial assets	1,906	2,322
Bank and other interest	223	75
Investment management fees	(33)	(33)
	2,805	2,935

6. Finance costs

	2013 £'000	2012 £'000
Loan interest	992	1,037

7. Total comprehensive income for the year

	2013 £'000	2012 £'000
Total comprehensive income for the year is arrived at after charging:		
Staff costs (note 8(a))	1,575	1,544
Depreciation of Property, Plant and Equipment	27	27
Auditors' remuneration		
– audit services	21	23
– non-audit services	7	25

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:

	2013	2012
	£'000	£'000
Wages and salaries	1,085	1,079
Social security costs	114	124
Pension contributions	376	341
	1,575	1,544

- (b) The average number of employees (excluding the Chancellor and non-executive Council members) during the year was 16 (2012: 15).

- (c) The full details of the Chancellor and each Council member's remuneration package for the financial year are set out below:

	Basic salary and fees £'000	Performance payments £'000	Taxable benefits and allowances £'000	Total 2013 £'000	Total 2012 £'000
Rt Hon The Lord Hill of Oareford (Appointed as Chancellor on 9 January 2013)	–	–	–	–	–
Rt Hon The Lord Strathclyde (Retired as Chancellor on 9 January 2013)	–	–	–	–	–
Lord Shuttleworth KCVO	68	–	–	68	63
Mr Paul Clarke CVO	172	44	2	218	207
Mr Christopher Adcock	117	29	1	147	139
Sir Alan Reid KCVO	–	–	–	–	–
Mr Robert Miles QC	12	–	–	12	–
Mr Robert Hildyard QC	–	–	–	–	6
Ms Anne Richards	17	–	–	17	17
Mr Hugh Seaborn	17	–	–	17	17
Mr Mark Hudson	17	–	–	17	17
Mr Martin Beaumont	17	–	–	17	17

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

	2013	2012
	£'000	£'000
Mr Paul Clarke CVO	22	22
Mr Christopher Adcock	14	12

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

	2013 £'000	2012 £'000
Proceeds from bona vacantia	3,489	4,530
Provisions for late claims transferred to Late Claims Fund	(923)	(2,133)
	2,566	2,397
Costs of palatinate administration and historical obligations (note 10)	(1,221)	(837)
	1,345	1,560

10. Palatinate administration and historical obligations

	2013 £'000	2012 £'000
Administration of bona vacantia – costs met directly by the Duchy	102	81
Upkeep of castles and historic monuments	39	53
Rental and other income from castles	(2)	(2)
Savoy Chapel – stipends, running costs and repairs	865	510
Ceremonial, ancient stipends, charitable annuities and preservation of historic records	175	162
Administration of Duchy of Lancaster charitable funds	42	33
	1,221	837

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	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Assets				
Non-current assets				
Investment property	–	–	402,676	379,583
Property, plant and equipment	35	54	2,989	2,455
Financial assets	4,110	4,079	54,275	49,437
Total non-current assets	4,145	4,133	459,940	431,475
Current assets				
Investment property assets held for sale	–	–	6,033	2,967
Trade and other receivables	2,052	1,739	15	800
Cash and cash equivalents	6,707	14,100	1,188	3,780
Balances due from Capital	6,561	1,143	–	–
Total current assets	15,320	16,982	7,236	7,547
Total assets	19,465	21,115	467,176	439,022
Liabilities				
Current liabilities				
Trade and other payables	(14,805)	(16,486)	(557)	(977)
Balances due to Revenue	–	–	(6,561)	(1,143)
Total current liabilities	(14,805)	(16,486)	(7,118)	(2,120)
Non-current liabilities				
Borrowings	–	–	(31,000)	(31,000)
Provisions	(4,110)	(4,079)	–	–
Retirement benefit obligations	(1,273)	(1,114)	–	–
Total non-current liabilities	(5,383)	(5,193)	(31,000)	(31,000)
Total liabilities	(20,188)	(21,679)	(38,118)	(33,120)
Net assets	(723)	(564)	429,058	405,902
Capital and reserves				
Revenue Account	475	279	–	–
Capital Account	–	–	429,058	405,902
Retirement benefit reserve	(1,198)	(843)	–	–
Total reserves	(723)	(564)	429,058	405,902

Duchy of Lancaster

Notes to the accounts (continued)

12. Investment Property

	Value at 1 April 2012 £'000	Purchases at cost £'000	Transfers to investment properties held for sale £'000	Sales proceeds £'000	Change in fair value £'000	Value at 31 March 2013 £'000
Agricultural property						
Farmland	119,342	5,225	(1,809)	(2,225)	10,018	130,551
Woodlands	6,011	–	–	–	1,140	7,151
Foreshores	5,050	–	–	–	2,425	7,475
	130,403	5,225	(1,809)	(2,225)	13,583	145,177
Residential property	61,350	2,236	(1,869)	(1,223)	(1,867)	58,627
Commercial property	175,288	7,733	(375)	–	2,762	185,408
Mineral rights	1,716	–	–	(7)	1,336	3,045
Land held for development	4,656	122	(1,980)	–	718	3,516
Indirect property investment	6,170	–	–	–	733	6,903
Total investment property	379,583	15,316	(6,033)	(3,455)	17,265	402,676

All landed property is situated in England and Wales. Purchases at cost include expenses of purchases and expenditure on permanent improvements of £11,156,000 (2012: £5,137,000). Sales proceeds are net of expenses of sale and development costs charged from Revenue.

At 31 March 2013 most of the commercial property portfolio was valued internally. The rural property portfolio was valued externally by professionally qualified valuers. The breakdown of the external valuations at 31 March 2013 by valuer is as follows:

Savills	54%
Smiths Gore	45%
Others	1%

13. Property, plant and equipment

	Owner Occupied Property £'000	Motor Vehicles £'000	Plant & Equipment £'000	Total £'000
Cost or valuation				
Balance at 1 April 2012	2,455	12	363	2,830
Additions during the year	–	–	9	9
Revaluations during the year	534	–	–	534
Less: disposals during the year	–	–	(17)	(17)
Balance at 31 March 2013	2,989	12	355	3,356
Accumulated depreciation				
Balance at 1 April 2012	–	10	311	321
Charged during the year	–	2	25	27
Less: disposals during the year	–	–	(16)	(16)
Balance at 31 March 2013	–	12	320	332
Net Book Value				
31 March 2013	2,989	–	35	3,024
31 March 2012	2,455	2	52	2,509

Duchy of Lancaster

Notes to the accounts (continued)

14. Financial assets

	Value at 1 April 2012 £'000	Additions at cost £'000	Sales proceeds £'000	Change in market value £'000	Value at 31 March 2013 £'000
Capital Financial Assets					
Fixed interest unit trust	4,268	–	–	966	5,234
Equities	37,298	–	–	3,597	40,895
Private equity fund	7,871	93	(557)	739	8,146
	49,437	93	(557)	5,302	54,275
Other Financial Assets					
Fixed interest unit trust	4,079	190	(338)	179	4,110
	4,079	190	(338)	179	4,110
Total	53,516	283	(895)	5,481	58,385

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).

15. Investment property assets held for sale

	2013 £'000	2012 £'000
Investment property assets held for sale	6,033	2,967

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

	2013 £'000	2012 £'000
Trade receivables (rents)	989	798
Other receivables	25	826
Prepayments and accrued income	1,053	915
	2,067	2,539

All receivables are denominated in Sterling.

As of 31 March 2013 trade receivables of £989,000 (2012: £798,000) were past due but not impaired.

The ageing analysis of these trade receivables is as follows:

	2013 £'000	2012 £'000
Under 3 months	976	790
3 to 12 months	13	8
Over 12 months	–	–

As of 31 March 2013 trade receivables of £312,000 (2012: £344,000) were impaired and provided for. The impaired receivables mainly relate to tenants who are in financial difficulty.

Duchy of Lancaster

Notes to the accounts (continued)

16. Trade and other receivables (continued)

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:

	2013 £'000	2012 £'000
At 1 April	344	255
Provision for receivables impairment	(28)	293
Receivables written off	(4)	(204)
At 31 March	312	344

The creation 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

	2013 £'000	2012 £'000
Amounts falling due within one year:		
Trade payables	123	197
Other taxes and social security	487	1,113
Other payables	8,275	8,833
Accruals and deferred income	4,231	4,595
Due to the Privy Purse	2,001	2,665
Due to Duchy of Lancaster charitable funds	245	60
	15,362	17,463

18. Borrowings

	2013 £'000	2012 £'000
Long term borrowings	31,000	31,000

A bank loan of £31 million is repayable on 6 October 2014. Interest for the year was at a combination of fixed and floating rates over the agreed margin of between 1.4% and 2%.

Duchy of Lancaster

Notes to the accounts (continued)

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 :

	2013 £'000	2012 £'000
Provisions for late claims received from the bona vacantia account met directly by the Duchy	923	2,133
Provisions for late claims received from the bona vacantia account	7	13
Increase in value of investments	179	409
Claims paid during the year	(1,078)	(675)
Surplus for the year	31	1,880
Late Claims Fund balance at 1 April	4,079	2,199
Late Claims Fund balance at 31 March	4,110	4,079

20. Retirement benefit obligations

The Duchy of Lancaster Staff Pension Scheme is a defined benefit scheme. It was closed to new entrants with effect from 6 February 2002.

From 1 January 2007 the Duchy made contributions to the scheme of a fixed annual amount of £28,150 payable monthly for salaried staff and in addition fixed payments in respect of past service of £121,000 per annum payable monthly, increasing at 2.8% per annum compound. From 1 January 2010 the Duchy amended its current service contributions to a fixed annual amount of £39,200 payable monthly for salaried staff and in addition fixed payments in respect of past service of £210,000 per annum payable monthly, increasing at 3.0% per annum compound. This was further amended from 1 January 2013 to a fixed annual amount of £44,900 payable monthly for salaried staff and in addition fixed payments in respect of past service of £261,600 per annum payable monthly, increasing at 3.0% per annum compound.

The Scheme's last actuarial valuation was carried out with an effective date of 31 March 2012 by an independent actuary. The disclosures below have been based on these results, updated using approximate methods to 31 March 2013. The figures for the previous two years are included for comparison.

As the Scheme is closed to new members, under the projected unit method the current service cost will increase as the remaining active members of the Scheme approach retirement.

The major assumptions used by the actuary were:

	2013 % pa	2012 % pa	2011 % pa
Rate of increase in pensionable salaries	4.8	4.8	5.1
Rate of increase in pensions in payment	2.3	2.5	2.8
Discount rate	4.0	4.7	5.6
Inflation assumption (RPI)	3.3	3.3	3.6
Inflation assumption (CPI)	2.3	2.5	2.8

Duchy of Lancaster

Notes to the accounts (continued)

20. Retirement benefit obligations (continued)

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

	Mortality assumption	Life expectancy
Pensioners now aged 60		
Males	Males S1PA YOB with CMI 2011	27.1
Females	projection and a long term rate of improvement of 1.25%	29.6
Future pensioners from age 60 but currently aged 40		
Males	Males S1PA YOB with CMI 2011	29.1
Females	projection and a long term rate of improvement of 1.25%	31.6

The assets in the Duchy of Lancaster Staff Pension Scheme and the expected rate of return were:

	Long term rate of return expected at 31 March 2013 %pa	Value at 31 March 2013 £'000	Long term rate of return expected at 31 March 2012 %pa	Value at 31 March 2012 £'000	Long term rate of return expected at 31 March 2011 %pa	Value at 31 March 2011 £'000
Equities	6.05	3,517	5.3	2,723	6.4	2,251
Gilts	3.00	916	3.8	4,742	4.9	5,124
Corporate Bonds	3.75	3,834	–	–	–	–
Cash	0.50	172	0.5	356	0.5	76
Total market value of assets		8,439		7,821		7,451
Present value of Scheme liabilities		(9,712)		(8,935)		(8,131)
Deficit in the Scheme		(1,273)		(1,114)		(680)

Analysis of the amount charged to operating profit:

	2013 £'000	2012 £'000
Current service cost	37	35
Past service cost	–	–
Total operating charge	37	35

Analysis of the amount credited to other finance income:

	2013 £'000	2012 £'000
Expected return on assets	321	386
Interest on pension scheme liabilities	(407)	(441)
Net return	(86)	(55)

Duchy of Lancaster

Notes to the accounts (continued)

20. Retirement benefit obligations (continued)

Amount recognised in other comprehensive income (OCI)

	2013 £'000	2012 £'000
Actuarial loss recognised in OCI	(355)	(655)

Movement in scheme liabilities during the year

	2013 £'000	2012 £'000
Liabilities at start of year	8,935	8,131
Movement in year:		
Current service cost	37	35
Interest cost	407	441
Contributions paid by scheme members	3	3
Benefits paid	(561)	(554)
Actuarial loss (taken from OCI)	891	879
Liabilities at end of year	9,712	8,935

Movement in scheme assets during the year

	2013 £'000	2012 £'000
Assets at start of year	7,821	7,451
Expected return on scheme assets	321	386
Contributions (total paid by employer and scheme members)	322	314
Benefits paid	(561)	(554)
Actuarial gain	536	224
Assets at end of year	8,439	7,821

History of scheme assets, obligations and experience adjustments

	2013	2012	2011	2010	2009
Present value of scheme liabilities	9,712	8,935	8,131	9,196	7,176
Fair value of scheme assets	8,439	7,821	7,451	7,331	6,533
Deficit in the scheme	(1,273)	(1,114)	(680)	(1,865)	(643)
Experience adjustments arising on scheme liabilities (£'000)	(118)	(292)	161	135	133
Experience item as a percentage of scheme liabilities	(1%)	(3%)	2%	1%	2%
Experience adjustments arising on scheme assets (£'000)	536	224	1	871	(965)
Experience item as a percentage of scheme assets	6%	4%	0%	12%	(14%)
Cumulative actuarial loss shown in OCI	(1,198)	(843)	(188)	(1,272)	(108)

Duchy of Lancaster

Notes to the accounts (continued)

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

	2013 £'000	2012 £'000
Net surplus on Revenue account	12,697	13,086
Adjusted for:		
Depreciation	27	27
Current service costs less contributions to pension scheme	(196)	(221)
Net finance income	(1,813)	(1,898)
Net (expenditure)/income from escheats	(4)	5
Repayments to Capital	59	42
Increase in valuation of other financial investments	(179)	(410)
Loss on disposal of property, plant and equipment	1	2
Decrease/(increase) in receivables	472	(438)
(Decrease)/increase in payables	(1,406)	10,856
Net cash inflow from operating activities	9,658	21,051

22. Related party transactions

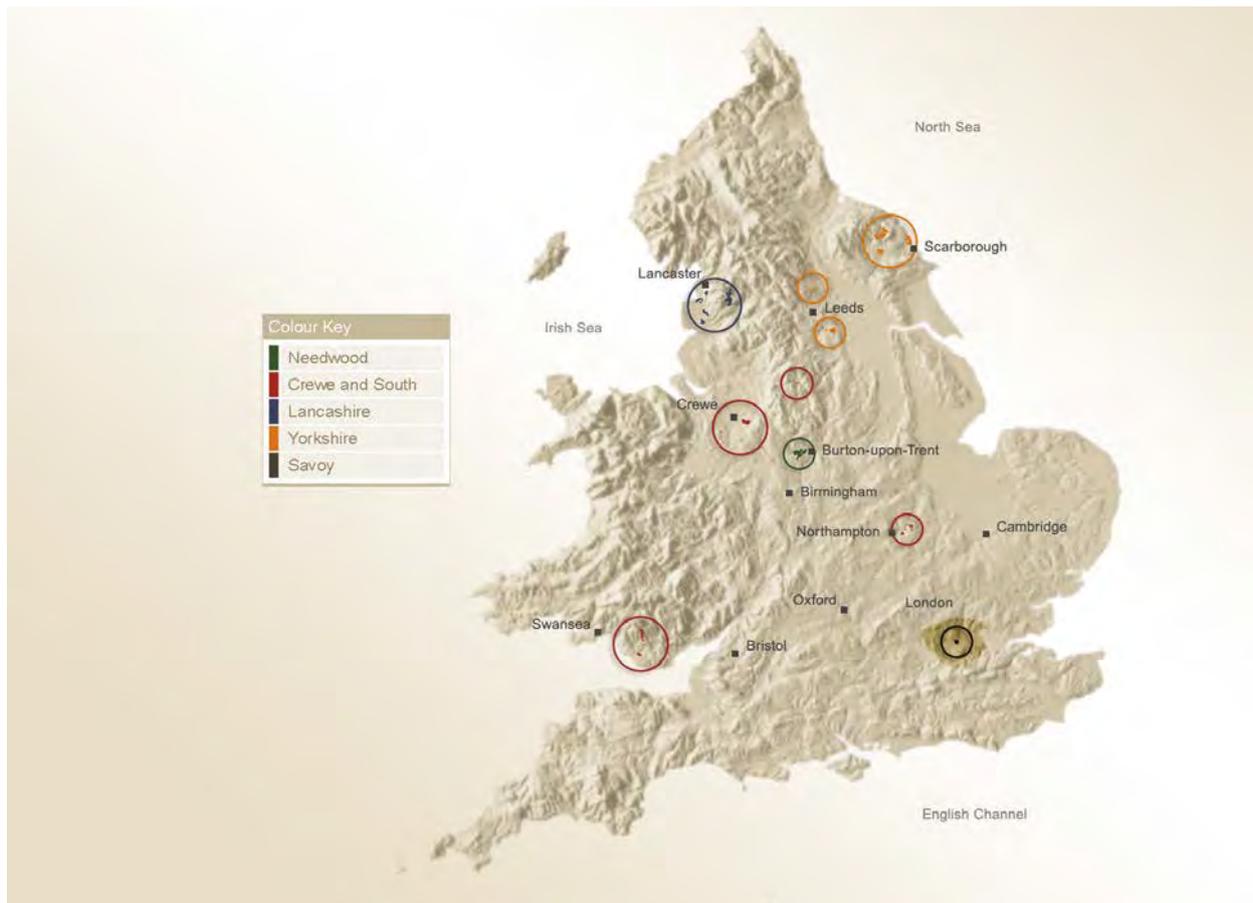
Charitable donations of £1,245,000 (2012: £nil) and £100,000 (2012: £1,560,000) were made to the Duchy of Lancaster Jubilee Trust and the Duke of Lancaster Housing Trust respectively, arising from the surplus receipts of bona vacantia (see note 9). All Council members except the Chief Finance Officer act as trustees of the Duchy of Lancaster Jubilee Trust. Two of the Council members act as trustees of The Duke of Lancaster Housing Trust.

Duchy of Lancaster

Duchy of Lancaster Surveys

The Duchy of Lancaster Surveys are rural estates totalling approximately 17,900 hectares located as follows:

	Hectares
The Needwood Survey Staffordshire	2,953
The Crewe and South Survey Cheshire Northamptonshire Derbyshire Lincolnshire Glamorgan Shropshire Leicestershire	3,916
The Lancashire Survey Lancashire	3,819
The Yorkshire Survey Yorkshire	6,670
The Eastern Survey Lincolnshire	510
	17,868



Duchy of Lancaster

Accounts of the Solicitor for the Affairs of the Duchy of Lancaster for the year ended 30 September 2012

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 209 intestate estates (2011: 266) and 1,693 dissolved companies (2011: 1,564) were formally reported.

Income and expenditure account for the year ended 30 September 2012

	2012 £
Income	
Monies received from dissolved companies	2,893,344
Monies received from intestate estates	2,636,680
Interest and other	30,542
Monies received	5,560,566
Expenditure	
Payments to next of kin	(1,263,055)
Company restoration	(949,209)
Ex-gratia payments to claimants	(437,223)
Administration costs	(1,193,496)
Net income less expenditure	1,717,583
Paid to the Duchy of Lancaster	(3,838,761)
Net expenditure for the year ended 30 September 2012	(2,121,178)
Cash balances at 1 October 2011	6,365,154
Net expenditure for the year ended 30 September 2012	(2,121,178)
Cash balances at 30 September 2012	4,243,976

Balance sheet as at 30 September 2012

	2012 £
Current assets	
Cash and deposits	4,243,976
	4,243,976
Current liabilities	
The Duchy of Lancaster	(350,439)
Other creditors	(100,360)
	(450,799)
Total assets less current liabilities	3,793,177
Representing:	
Estates under administration	3,793,177

Duchy of Lancaster

Accounts direction given by H.M. Treasury

Operating Review

1. The Duchy of Lancaster shall prepare accounts for the financial year ended 31 March 2012 and subsequent financial years comprising:

- a Report of Council including an Operating Review and 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 7 March 2011. It shall be reproduced as an appendix to the accounts.

Paula Diggle
Treasury Officer of Accounts

14 March 2012

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.

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Front cover picture: Diamond Jubilee Window, The Queen's Chapel of the Savoy, London