Duchy of Lancaster

# Report and Accounts

## Year ended 31st March 2017

*Preserving the past, investing for the future*

DUCHY of LANCASTER

# Annual Report

## Report and accounts of the Duchy of Lancaster for the year ended 31 March 2017

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

*North Yorkshire Moors Railway, Goathland Estate.*

# Introduction

The Duchy of Lancaster is a private estate owned by Her Majesty The Queen as Duke of Lancaster. It has been the personal estate of the reigning Monarch since 1399 and is held separately to all other Crown possessions.

The ancient inheritance began over 750 years ago. Historically, its growth was achieved via legacy, alliance and confiscation. In more modern times, growth and diversification has been delivered through active asset management.

Today, the estate covers 18,540 hectares of rural land divided into five Surveys: Cheshire, Lancashire, Staffordshire, Southern and Yorkshire. It also includes Foreshore and a Minerals Survey, together with a growing Urban Survey which is made up of a number of office, retail and industrial properties across the country.

## 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 '*honor, 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.

*Her Majesty The Queen, Duke of Lancaster.*

*Amicia Tenement, Crewe Estate, Cheshire.*

# Introduction *continued*


*Coat of Arms of the Duchy of Lancaster.*

Edmund's inheritance passed to his son Thomas, Earl of Lancaster who was executed in 1322 by King Edward II for rebellion. His lands and titles eventually passed to his brother Henry and on his death to Henry's son, Henry Grossmont, on whom Edward III in 1351, conferred the title of Duke of Lancaster '*in recognition of (his) astonishing deeds of prowess and feats of arms*' of this celebrated diplomat and soldier.

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 on 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 provided that the Sovereign should only receive income and not capital from the Duchy.

And so it remains to this day.

## 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 land.

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 as Duke of Lancaster. The Duchy is not subject to corporation tax because the Duchy 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.

## Guiding Principles

### *Preserving the past, investing for the future*

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 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 the provision of 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 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 market cycles 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 Ogmore 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 and commercial development sites. These are subject to the Duchy's own Design Standard to ensure that, 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.

*Skills training at Moulton College, Higham Ferrers Estate, Northamptonshire.*

# The Surveys

## Minerals

The Duchy has an extensive mineral portfolio which extends from South Wales to North Yorkshire. It consists of limestone and sandstone quarries, which supply material to the UK construction sector, and a mine supplying gypsum to the cement industry.

## Rural

The historic Rural Surveys were realigned in 2015 to more closely reflect their geographic boundaries and the profile of their local communities: Cheshire, Lancashire, Staffordshire and Yorkshire. The Duchy's Lincolnshire assets are combined with those in Derbyshire, Northamptonshire and South Wales to form the Southern Survey which is managed in-house.

### • Cheshire

The Cheshire Survey covers 1,415 hectares and is largely made up of the Crewe estate to the South of the county and includes the smaller Marbury estate which lies on the Cheshire/Shropshire border.

Centred on the historic properties of Crewe Hall and Crewe Hall Farm, the Crewe estate extends to 1,380 hectares, stretching from the edge of the town to the M6 at Junction 16. There are 10 main farms on the estate which are involved in dairy, arable and livestock production, as well as equestrian businesses and woodlands. At Crewe Hall Farm the Duchy has created a highly sought-after business address, with 10 companies in flexible office suites of varying sizes surrounded by views of the open countryside.

The estate also includes a residential lettings portfolio of 76 rural cottages and farmhouses, as well as a roadside Service Area and a number of potential future development opportunities.

At 35 hectares, the smaller Marbury estate, on the Shropshire border, consists of a single dairy farm and five residential properties let to local people.

### • Lancashire

The Lancashire Survey extends to 3,849 hectares in total, comprising four rural estates: Myerscough, Salwick, Whitewell and Wyreside.

*Fennel Cottage, Crewe Estate, Cheshire.*


*Entrance to Dunsop Bridge, Whitewell Estate, Lancashire.*

The Duchy has owned Myerscough since the 13th century. There are six principal agricultural holdings on the 598-hectare estate, including three which form part of the renowned agricultural training centre at Myerscough College. Five residential properties and six commercial lettings are also part of the estate.

The 535-hectare Salwick estate is predominantly farmland, but also includes around 15 hectares of woodland, as well as two residential properties and four commercial lettings. There are five equipped agricultural holdings on the estate, the majority of which are dairy farms.

At 2,441 hectares, Whitewell is the largest estate in the Survey. It lies within the Area of Outstanding Natural Beauty that is the Forest of Bowland and includes nine main farms, 37 residential properties and 28 commercial and miscellaneous lettings. The residential properties are clustered around picturesque villages such as Dunsop Bridge, while the commercial interests include office units, a garage, post office, village store, café and hotel/ restaurant.

The Wyreside estate covers some 275 hectares, including one main agricultural holding and four residential properties. There are also 34 commercial and miscellaneous lettings, ranging from private fishing lakes to family camping and caravan parks.

## • Southern

The Southern Survey incorporates the Duchy of Lancaster's land and property assets in South Wales, Northamptonshire, Lincolnshire and Derbyshire. It covers 3,657 hectares and is managed in-house by the Duchy's Head of Rural.

Last year, two strategic acquisitions significantly increased the Duchy's Lincolnshire land holdings and

### Foreshore

The Duchy of Lancaster's ancient Foreshore runs from the River Mersey in the South, to Barrow-in-Furness in the North. It includes 85 lettings for a variety of uses, from sheep farming to bridges.

# The Surveys *continued*

A number of Castles and historic properties are also included in the ancient Duchy inheritance, including The Queen's Chapel of the Savoy. Most are managed on the Duchy's behalf by the relevant local authority or agencies such as English Heritage. Only Lancaster Castle, Tutbury Castle and the Chapel are managed directly by the Duchy.

supported its strategy of investing in root crop farming and arable farmland. This year, a further acquisition has brought the total area of farmland on the Estate owned by the Duchy to 1,045 hectares and the merger of two contiguous land holdings has created a new signature farm on the Estate. The four farms are operated by highly experienced, successful and respected producers.

At Castleton in the Derbyshire 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 Northamptonshire estates are centred on the 13th century inheritance of Higham Ferrers and Wollaston, and consist mainly of arable farms. They also include an 18-hole golf course at Rushden and a Vocational Skills Academy at New Farm College developed jointly by the Duchy and Moulton College.

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

## • Staffordshire

The Staffordshire Survey is comprised of the 2,995-hectare Needwood estate.

Originally a large area of ancient woodland with extensive stocks of wolf, wild boar and fallow deer, today the Needwood estate comprises a mix of 50 farm tenancies which are a mix of arable, dairy, sheep and beef enterprises, 59 residential properties and 51 commercial and miscellaneous lettings. The commercial interests across the estate are diverse and range from specialist equestrian centres and liveries to a saw mill, shooting and fishing licenses, live/work units and a private airfield.

The Duchy is carrying out a programme of works to improve the quality of over 500 hectares of existing 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.

## • Yorkshire

The Yorkshire Survey covers 6,624 hectares across four main estates: Cloughton, Goathland, Pickering and Pontefract.

Cloughton is made up of 994 hectares of arable land as well as 40 residential and tenanted properties. The creation of a sustainable new model farm at Fields Farm was completed in December 2015, moving the agricultural operation out of the village centre and into the open countryside.

The 4,532-hectare Goathland estate includes a large area of heather moorland, much of which is a Site of Special Scientific Interest (SSSI). Upland grazing and grouse shooting

*Slow the Flow flood management, Pickering Estate, Yorkshire.*

form the majority of the let interests on the estate.

The Pickering estate is home to a mix of arable and livestock farming. There is also 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.

## Urban

The Duchy's Urban Survey continues to make a significant contribution to the income performance of the portfolio.

The core Urban estate includes land and property assets in high value locations such as on the Strand in Central London, Harrogate in North Yorkshire, and a growing number of commercial, industrial/warehouse buildings in London, Birmingham and the North West. A key strategic acquisition this year was the Gravity portfolio of industrial and distribution buildings serving the South of England.

The Savoy Estate in London is the largest asset in the Urban portfolio, 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 public realm improvements being proposed by the NorthBank Business Improvement District. The estate also includes The Queen's Chapel of the Savoy.

The Duchy has developed sixteen luxury holiday cottages, the majority of which are at Scalby Lodge near Scarborough. In 2016, a number of the cottages were refurbished in line with the new Duchy Design Standard. The cottages have received a 5-star rating from Visit England and Certificates of Excellence from TripAdvisor. All cottages continue to enjoy high levels of occupancy throughout the year.

*Refurbished ground floor offices, 9 Savoy Street, London.*

# The Surveys *continued*

*Crewe Hall Farm offices, Crewe Estate, Cheshire.*

The Harrogate estate in Yorkshire includes a care home, residential properties, a hotel, school and The Stray, a 103-hectare expanse of public open space. The residential element in Harrogate comprises a converted 18th century villa and a new apartment complex in the heart of this spa town.

The portfolio also includes a significant element of industrial/warehouse properties with the key core holdings in established locations, including Tower Bridge Business Park in London, Erdington in Birmingham and Trafford Park in Manchester. The newly acquired Gravity portfolio adds similar urban distribution hubs in Alcester, Basingstoke, Harlow, Redditch and Swindon.

The Duchy's Urban portfolio is monitored and reviewed to ensure that it remains well balanced and appropriately positioned to maximise returns.

## Planning and Development

The Duchy continues to work with local authorities to release land to address the national housing shortage via the local plan process. This has resulted in the allocation of several strategic sites in Cheshire, Northamptonshire and Yorkshire which in turn could deliver 3,500 much-needed residential properties.

The Duchy is particularly mindful of the shortage of high quality and affordable living accommodation available to local people in rural communities. It also supports the design and delivery of low density development schemes which are sympathetic to the natural landscape, while also protecting the character of the surrounding built environment.

A number of land holdings have been identified as potential development sites. These are currently being taken forward with the relevant local authorities as part of the formal planning process. The Duchy has received planning and commenced a small development in Harrogate, Yorkshire in a Joint Venture with Linden Homes which will be completed in the autumn of 2017.

In all of its development proposals, the Duchy is committed to ensuring, wherever possible, the highest standards of design and specification, and to enhancing the place-making process through public consultation.

## Financial Portfolio

A further component of the Duchy of Lancaster's portfolio is its financial investments. These take the form of equities, bonds and other financial investments. They are prudently managed to ensure a stable income stream and to protect the real capital value of the financial portfolio over the longer term.

# Highlights of 2016-17

*Wild garlic in flower, Crewe woodlands, Cheshire.*

## Bio-diversity audit

In May 2016, working in partnership with Natural England and the Game and Wildlife Conservation Trust, the Duchy commissioned a bio-diversity audit of all its rural holdings in England and Wales. The aim of the project is to identify, map, encourage, protect and preserve appropriate habitats for wild pollinators and other wildlife in order to ensure a sound ecological balance. The first phase of the three-year partnership project focuses on investigation and documentation. This will help the Duchy to identify and record the quantum, scale and condition of the diverse species and habitats across its estates.

Once all of the relevant data has been compiled and mapped, an action plan will be prepared detailing any further work required to protect and enhance those species and habitats identified as regional priorities. This will be shared with our farming tenants with a view to implementation of the action plan in 2019/20 and beyond.

## Restoration and Renewal

We have invested approximately £2m this year in the roll-out of the Duchy Design Standard and specification across the residential portfolio. Each of the Surveys now has a good selection of schemes which demonstrate the quality of workmanship and internal specification that we want to establish as the standard for our Surveys over time. Fennel Cottage in Cheshire, South Planks Farmhouse in Lancashire, Hareholes Farm Cottage in Staffordshire and Beck Farmhouse in Yorkshire are good examples of the refurbishment projects we have completed in the year. Similar investment is planned for next year as we continue our programme of restoration, at the same time renewing the properties' appeal as desirable and contemporary family homes.

## Investment Activity

The most significant commercial investment this year was the acquisition of the 'Gravity' portfolio in strategic locations across the South of England.

The portfolio, acquired in September 2016 for £34.25m, comprises four distribution warehouses (Basingstoke, Harlow, Redditch, Alcester) and one industrial estate in Swindon. The Duchy of Lancaster has been steadily building its distribution warehouse network in recent years, acquiring Wardley Industrial Estate in Greater Manchester in 2015 and both Estuary Commerce Park in Speke, Liverpool and Units A and B at Walker Park, Blackburn in 2014.

*Hareholes Farm Cottage, Needwood Estate, Staffordshire.*

# Highlights of 2016-17 *continued*

*Ravensbrook Business Park, Redditch.*

Gravity is the largest acquisition by the Duchy in its history and brings the total commercial warehousing and distribution space in its ownership to over 1.7 million sq ft in 12 strategic locations nationwide.

On the agricultural side, the Duchy has also continued to expand its Lincolnshire estate. In 2016, it acquired a further 200 hectares of prime agricultural land and also oversaw the amalgamation of contiguous farmland to create a new signature holding at Park Farm in Donington. The newly extended farm, which includes temperature controlled storage facilities for 4,000 tonnes of potatoes and 6,000 tonnes of grain, has been let to leading UK fresh food producer, Elvedon Estates.

## Preserving the Past

Conservation work continues at Lancaster Castle, as the first phase of repair works designed to protect the historic fabric of the buildings completes. Planning permission has been secured for an extensive refurbishment of the Kitchen Courtyard and buildings beyond the existing Visitor's Centre, creating a brand new teaching and conference facility, visitor restaurant and gift shop. We plan to begin these works in autumn 2017.

As a clear demonstration of its commitment to Lancaster, the Duchy has created a dedicated office suite in the former Debtors' Workshops overlooking the main courtyards. In developing the design of the new offices, the retention and celebration of the materials used in the original construction of this 19th-century block were key considerations. As a result, the open plan office suite includes natural exposed stone walls and doorways as well as multi-media facilities. Every effort has been made to protect the integrity of the original building, whilst creating a contemporary space which is functional, ergonomic and sympathetic.

The room at the base of the Victorian clock-tower has also been refurbished to create a space celebrating life in the Duchy. It houses a standing exhibition of wall-mounted panels which explore the origins and history of the Duchy of Lancaster as well as the Duchy's links with Lancaster Castle.

*Open plan office suite, Lancaster Castle.*

# Strategic Report

## Financial and Risk Review

- The Net Surplus has increased in the year by 7.9% to £19.2m (2016: £17.8m).
- Increase in Net Asset Value of 4.8% to £518.7m (2016: £494.7m).

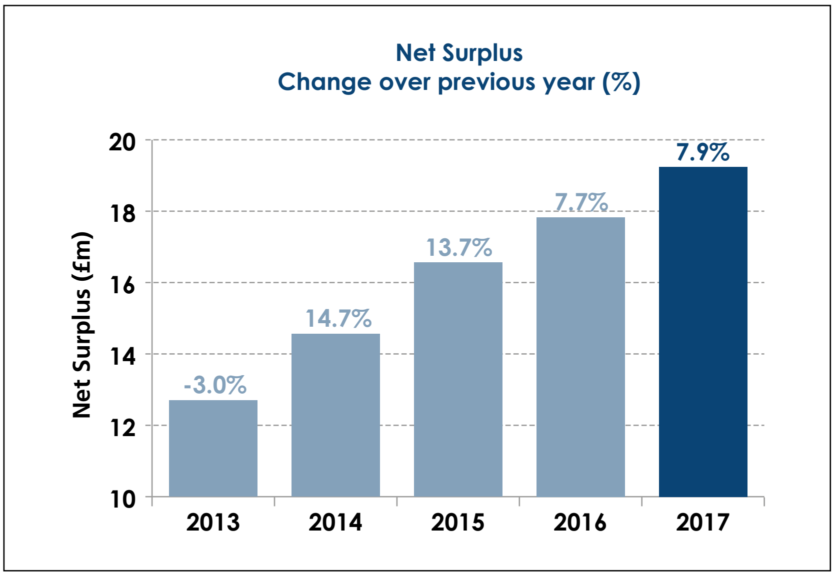
This has been another positive year for the Duchy, with strong growth in almost all of our business sectors. We have made a number of strategic acquisitions in both our Rural and Urban Surveys and the introduction of a recent new design standard for our rural residential properties has contributed significantly in lifting the quality of our product and reduced voids. We have also achieved a net asset value in excess of £500m.

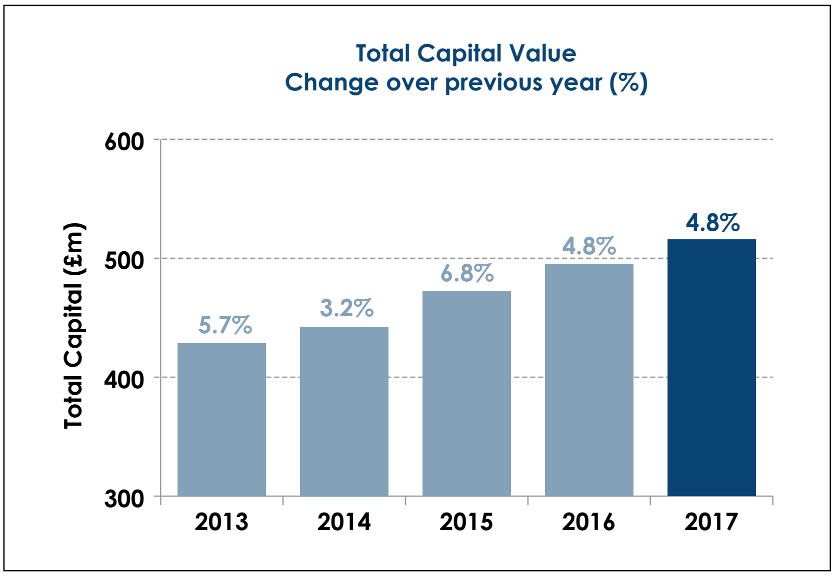
Over the year, the Duchy purchased £41.9m of land and property, including the 'Gravity' portfolio of four distribution warehouses and one industrial estate, and sold £1.1m. Overall, the Duchy has invested £4.1m in capital repairs and improvements.

The review of strategic land is a growing area of focus in response to housing needs across the country.

We are continuing to develop a robust and sustainable business aimed at delivering long term attractive returns which is informed by ever improving information systems.

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



# Strategic Report *continued*

## Liquidity and the Financial Portfolio

Over the year, the Duchy has increased its borrowing levels to £97m 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 £110m. However, in accordance with the revised borrowing policy and risk mitigation, 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 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.

Stanhope Capital act as the Duchy's investment consultants in order to maintain an independent watch over the financial portfolio.

## Principal risks and uncertainties

The Duchy seeks to ensure that risks are identified, quantified and managed appropriately. There is a comprehensive risk register reviewed by Council annually. 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 to focus specifically on occupational, investment and construction markets in the business sectors and geographic areas in which the Duchy operates.

The principal risks faced by the Duchy are shown below.

**Strategic risk**

Each year the Duchy carries out a five year business plan as well as preparing rolling forecasts for the year ahead. As part of this process a review is undertaken of long term trends to 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 staggered lease expiries and to assess the target of improving the covenant strength and diversification across the Duchy portfolios.

*Southern tenants presented to Her Majesty, Garden Party 2016.*

**Development risk**
The Duchy has established a robust evaluation process through closely monitoring occupational markets, investment activity and construction pricing. Development risk is managed in-house using external advisors as appropriate.

**Financial portfolio risk**
The Duchy employs an investment consultant to advise overall and an investment manager to manage the financial portfolio on a day-to-day basis. The portfolio is reviewed quarterly by both Duchy Council and the investment consultant to ensure that it remains in line with the risk and return objectives 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 as well as to maintain headroom within its borrowing covenants. Long term liquidity is reviewed and addressed as part of the five year business plan process.

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

**Reputational risk**
The Duchy gives ongoing consideration regarding any of its acts or omissions that could adversely impact the reputation of the Duchy or Her Majesty The Queen.

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.

Sir Mark Hudson KCVO
Nathan Thompson
London
4 July 2017

# Report of Council

*Magna Carta (1297).*

## 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 below. 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.

## Administration

The Chancellor of the Duchy of Lancaster is responsible to The Sovereign for the administration of the Duchy. The Chancellor delegates certain functions, particularly those relating to asset management, to the Duchy Council.

The accounts are prepared in compliance with the Treasury Direction set out on pages 53-54. 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.

*Pear Tree and Vine Cottages, Crewe Estate, Cheshire.*

## 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 2016 were:

- Sir Mark Hudson KCVO (Chairman of the Council)
- Sir Alan Reid GCVO (The Receiver General)
- Mr Robert Miles QC (The Attorney General)
- Mr Nathan Thompson (Chief Executive and Clerk of the Council)
- Mr Christopher Adcock LVO (Chief Finance Officer)
- Mr Martin Beaumont CVO
- Miss Kathryn Matthews
- Mr Hugh Bullock

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

# Report of Council *continued*


*Restored weather vane, John O'Gaunt Gate, Lancaster Castle.*

## 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 to review the external audit function in line with the Combined Code on Corporate Governance.

## Sustainability 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.

## 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 budget performance reports;
- 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 pages 14-15.

## 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.

## Viability statement

In line with the Combined Code on Corporate Governance, the Council has reviewed cashflow and profit projections based on conservative assumptions for the next 5 years and consider that there is a reasonable expectation of being able to continue in operation and meet all liabilities as they fall due. A period of 5 years has been selected as the Duchy is able to control expenditure and it has largely predictable income streams.

Sir Mark Hudson KCVO
Nathan Thompson
London
4 July 2017

*Woodlands, Needwood Estate, Staffordshire.*

# 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 2017 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 June 2016.

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 18, 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 2017 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 June 2016; and
- have been prepared in accordance with the requirements of the Accounts Direction given by the Treasury dated June 2016.

## 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. The Strategic Report and Report for Council have been prepared in accordance with applicable legal requirements.

## Matters on which we report by exception

In the light of the knowledge and understanding of the Duchy of Lancaster financial statements and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Report for Council. 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 June 2016 are not made; or
- we have not received all the information and explanations we require for our audit.

Jamie Younger

For and on behalf of
Saffery Champness LLP
Chartered Accountants
Statutory Auditors
London
4 July 2017

## Revenue Account Statement of Comprehensive Income

| | Note | Year ended 31 March 2017 £'000 | Year ended 31 March 2016 £'000 |
|---|---|---|---|
| Revenue | *2* | **24,241** | 21,804 |
| Operating costs | *3* | **(4,519)** | (3,808) |
| Administrative expenses | | **(1,511)** | (1,548) |
| **Operating surplus** | | **18,211** | 16,448 |
| Finance income | 5 | **2,753** | 2,840 |
| Finance costs | 6 | **(1,880)** | (1,458) |
| **Net operating income** | | **19,084** | 17,830 |
| Development expenditure | | **–** | – |
| Development expenditure recovered from Capital | | **156** | – |
| Net proceeds of bona vacantia | *9* | **2,150** | 891 |
| Payable for Duchy of Lancaster charitable purposes | | **(2,150)** | (891) |
| **Net surplus for the year** | | **19,240** | 17,830 |
| **Other comprehensive income:** | | | |
| Actuarial (loss)/gain on retirement benefit obligations | *20* | **(440)** | 709 |
| **Total comprehensive income on Revenue account** | | **18,800** | 18,539 |

## Capital Account Statement of Comprehensive Income

| | Note | Year ended 31 March 2017 £'000 | Year ended 31 March 2016 £'000 |
|---|---|---|---|
| Net gain from fair value adjustment on investment property | | **12,259** | 18,497 |
| Gain on disposal of investment property | | **486** | 3,833 |
| (Loss)/gain on disposal of property held for sale | | **(3)** | 60 |
| Repayments to capital: | | | |
| Proportion of mineral royalties | *3* | **62** | 57 |
| Less recovery of capital valuation fees | | **(62)** | (57) |
| Net (expenditure)/income from escheats | | **(3)** | 15 |
| Net gain on the disposal of financial assets | | **3,624** | 244 |
| Gain on dilapidations settlement | | **3,000** | – |
| **Surplus for the year on Capital account** | | **19,363** | **22,649** |
| **Other comprehensive income:** | | | |
| Net (loss)/gain from fair value adjustment on other property | *13* | **(61)** | 830 |
| Net gain/(loss) on the revaluation of financial assets | | **4,664** | (1,051) |
| Gain/(loss) on financial derivatives | | **422** | (716) |
| **Total comprehensive income on Capital account** | | **24,388** | 21,712 |

*The notes to the accounts on pages 25 to 50 are an integral part of these financial statements.*

## Balance sheet

| | Note | Year ended 31 March 2017 £'000 | Year ended 31 March 2016 £'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Investment property | *12* | **549,951** | 491,937 |
| Property, plant and equipment | *13* | **6,041** | 6,034 |
| Financial assets | *14* | **70,459** | 69,625 |
| **Total non-current assets** | | **626,451** | 567,596 |
| **Current assets** | | | |
| Investment property assets held for sale | *15* | **961** | 1,251 |
| Trade and other receivables | *16* | **2,660** | 3,873 |
| Cash and cash equivalents | | **13,536** | 9,781 |
| **Total current assets** | | **17,157** | 14,905 |
| **Total assets** | | **643,608** | 582,501 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | *17* | **(22,579)** | (21,528) |
| **Total current liabilities** | | **(22,579)** | (21,528) |
| **Non-current liabilities** | | | |
| Borrowings | *18* | **(97,000)** | (60,000) |
| Interest rate swaps | *18* | **(1,939)** | (2,361) |
| Provisions | *19* | **(3,242)** | (3,872) |
| Retirement benefit obligations | *20* | **(145)** | 3 |
| **Total non-current liabilities** | | **(102,326)** | (66,230) |
| **Total liabilities** | | **(124,905)** | (87,758) |
| **Net assets** | | **518,703** | 494,743 |
| **Capital and reserves** | | | |
| Capital Account | | **519,463** | 495,497 |
| Capital hedging reserve | *18* | **(1,939)** | (2,361) |
| Revenue Account | | **2,234** | 2,222 |
| Retirement benefit reserve | | **(1,055)** | (615) |
| **Total reserves** | | **518,703** | 494,743 |

Sir Mark Hudson KCVO
Nathan Thompson

4 July 2017

*The notes to the accounts on pages 25 to 50 are an integral part of these financial statements.*

## Statement of Changes in Capital and Reserves

| | | Capital account | | Revenue account | | Total |
|---|---|---|---|---|---|---|
| | Note | Capital reserve £'000 | Capital hedging reserve £'000 | Revenue reserve £'000 | Retirement benefit reserve £'000 | £'000 |
| **Balance as at 31 March 2015** | | 473,069 | (1,645) | 2,044 | (1,324) | **472,144** |
| Net surplus for the year | | 22,649 | – | 17,830 | – | **40,479** |
| **Other comprehensive income:** | | | | | | |
| Net gain from fair value adjustment on other property | | 830 | | | | **830** |
| Net loss on the revaluation of financial assets | | (1,051) | | | | **(1,051)** |
| Net loss from impairment on property held for sale | | – | | | | – |
| Loss on financial derivatives | | | (716) | | | **(716)** |
| Actuarial gain on retirement benefit obligations | *20* | | | | 709 | **709** |
| Less amounts payable to the Privy Purse | | | | (17,652) | | **(17,652)** |
| **Balance as at 31 March 2016** | | 495,497 | (2,361) | 2,222 | (615) | **494,743** |
| Net surplus for the year | | 19,363 | – | 19,240 | – | **38,603** |
| **Other comprehensive income:** | | | | | | |
| Net loss from fair value adjustment on other property | *13* | (61) | | | | **(61)** |
| Net gain on the revaluation of financial assets | | 4,664 | | | | **4,664** |
| Net loss from impairment on property held for sale | | – | | | | – |
| Gain on financial derivatives | | | 422 | | | **422** |
| Actuarial loss on retirement benefit obligations | *20* | | | | (440) | **(440)** |
| Less amounts payable to the Privy Purse | | | | (19,228) | | **(19,228)** |
| **Balance as at 31 March 2017** | | 519,463 | (1,939) | 2,234 | (1,055) | **518,703** |

## Statement of Cash Flows

| | Note | Year ended 31 March 2017 £'000 | Year ended 31 March 2016 £'000 |
|---|---|---|---|
| **Cash generated from operating activities** | *22* | **22,291** | 14,974 |
| Interest paid | | **(1,880)** | (1,458) |
| **Net cash from operating activities** | | **20,411** | 13,516 |
| **Cash flows from investing activities** | | | |
| Purchase and improvement of investment property | | **(46,189)** | (17,893) |
| Purchase of owner occupied property | | **(68)** | (14) |
| Purchase of property held for sale | | **–** | – |
| Purchase of financial investments | | **(25,581)** | (36,794) |
| Purchase of property, plant and equipment | | **(10)** | (22) |
| Proceeds from disposal of investment properties | | **920** | 9,405 |
| Proceeds from disposal of property held for sale | | **287** | 1,515 |
| Proceeds from disposal of financial investments | | **33,348** | 31,053 |
| Financial investment income | | **2,753** | 2,840 |
| **Net cash outflow from investing activities** | | **(34,540)** | (9,910) |
| **Cash flows from financing activities** | | | |
| Proceeds from additional borrowings | | **37,000** | 10,000 |
| Payments made to the Privy Purse | | **(19,116)** | (19,005) |
| **Increase/(decrease) in cash in the year** | | **3,755** | (5,399) |
| Cash and cash equivalents at start of year | | **9,781** | 15,180 |
| **Cash and cash equivalents at end of year** | | **13,536** | 9,781 |

# 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 53-54.

## 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 53-54 and, except as disclosed above, in accordance with International Financial Reporting Standards (IFRS) 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 16 Leases | 1 January 2019 |
| IAS 7 Disclosure Initiative | 1 January 2017 |
| IAS 40 Transfers of Investment Property | 1 January 2018 |

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

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

**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).

**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 hierachy and the valuation techniques applied require judgement and further details are set out in note 21.

## Notes to the accounts (continued)

**Property valuations**
Investment properties, owner occupied properties and investment propeties held for sale are all held at fair value, in accordance with valuations carried out by external and internal valuers. Valuations are based on a number of key assumptions, including estimates of future rental income, the ready availibility of a market for the properties, and published life tables.

(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.

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.

# Notes to the accounts (continued)

(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 the 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 fully depreciated in the year of purchase.

(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) Capitalisation of staff costs
Staff costs are recharged to the Capital account on a relevant time basis for dealing with appropriate capital works or transactions.

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

(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, 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, the Duchy of Lancaster Benevolent Fund or the Duke of Lancaster Housing Trust, separate registered charities.

# Notes to the accounts (continued)

(m) Bona vacantia (continued)

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 2016. The accounts of the Solicitor for the Affairs of the Duchy of Lancaster for the year ended 30 September 2016 are, for the purposes of information, set out on page 52.

(n) Heritage assets

There is no International Financial Reporting Standard 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.

(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.

# Notes to the accounts (continued)

(r) Hedge accounting (continued)
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 hedge 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.

## 2. Revenue

| | **2017 £'000** | 2016 £'000 |
|---|---|---|
| **Income from Property** | | |
| Commercial | **16,190** | 13,276 |
| Agricultural | **4,691** | 4,077 |
| Residential | **2,205** | 2,071 |
| Mineral rents and royalties | **816** | 1,028 |
| Indirect property investment income | **339** | 1,352 |
| Total | **24,241** | 21,804 |

## 3. Operating costs

| | **Repairs and other direct costs £'000** | **Repayments to Capital £'000** | **Total 2017 £'000** | Total 2016 £'000 |
|---|---|---|---|---|
| **Expenditure on property** | | | | |
| Commercial | 984 | – | **984** | 725 |
| Agricultural | 502 | – | **502** | 447 |
| Residential | 729 | – | **729** | 573 |
| Mineral rents and royalties | – | 62 | **62** | 57 |
| | 2,215 | 62 | **2,277** | 1,802 |
| Staff costs, administration and professional fees | 2,242 | – | **2,242** | 2,006 |
| Total | 4,457 | 62 | **4,519** | 3,808 |

# 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, 25 years remaining to expiry. The aggregate minimum rentals, excluding contingent rents, receivable under non-cancellable leases are as follows:

| | **2017 £'000** | 2016 £'000 |
|---|---|---|
| Less than one year | **19,590** | 15,227 |
| Between two to five years | **62,130** | 45,898 |
| After five years | **182,205** | 145,844 |
| | **263,925** | 206,969 |

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

## 5. Finance income

| | **2017 £'000** | 2016 £'000 |
|---|---|---|
| Interest on other fixed interest stocks and unit trusts | **555** | 495 |
| Income from financial assets | **2,209** | 2,356 |
| Bank and other interest | **23** | 23 |
| Investment management fees | **(34)** | (34) |
| | **2,753** | 2,840 |

## 6. Finance costs

| | **2017 £'000** | 2016 £'000 |
|---|---|---|
| Loan interest | **1,880** | 1,458 |

## 7. Total comprehensive income for the year

| | **2017 £'000** | 2016 £'000 |
|---|---|---|
| Total comprehensive income for the year is arrived at after charging: | | |
| Staff costs (note 8(a)) | **2,353** | 2,212 |
| Depreciation of Property, Plant and Equipment | **10** | 89 |
| Auditors' remuneration | | |
| – audit services | **25** | 24 |
| – non-audit services | **5** | 3 |

## 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:

| | **2017 £'000** | 2016 £'000 |
|---|---|---|
| Wages and salaries | **1,675** | 1,564 |
| Social security costs | **211** | 196 |
| Pension contributions | **467** | 452 |
| | **2,353** | 2,212 |

(b) The average number of employees (excluding the Chancellor and non-executive Council members) during the year was 18 (2016: 17).

(c) The full details of the Chancellor 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 2017 £'000** | Total 2016 £'000 |
|---|---|---|---|---|---|
| Rt Hon Patrick McLoughlin MP (appointed as Chancellor on 14 July 2016) | – | – | – | **–** | – |
| Rt Hon Oliver Letwin MP (retired as Chancellor on 14 July 2016) | – | – | – | **–** | – |
| Sir Mark Hudson KCVO | 68 | – | – | **68** | 68 |
| Sir Alan Reid GCVO | – | – | – | **–** | – |
| Mr Nathan Thompson | 250 | 50 | 2 | **302** | 276 |
| Mr Christopher Adcock LVO | 155 | 25 | 2 | **182** | 171 |
| Mr Martin Beaumont CVO | 18 | – | – | **18** | 18 |
| Mr Robert Miles QC | 15 | – | – | **15** | 15 |
| Miss Kathryn Matthews | 18 | – | – | **18** | 18 |
| Mr Hugh Bullock | 18 | – | – | **18** | 8 |
| Mr Ian Coull (retired 30 June 2015) | – | – | – | **–** | 4 |

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

| | **2017 £'000** | 2016 £'000 |
|---|---|---|
| Mr Nathan Thompson | **27** | 25 |
| Mr Christopher Adcock LVO | **20** | 20 |

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.

# Notes to the accounts (continued)

## 9. Net proceeds from bona vacantia

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Proceeds from bona vacantia | **5,779** | 4,440 |
| Provisions for late claims transferred to Late Claims Fund | **–** | (1,332) |
| | **5,779** | 3,108 |
| Costs of palatinate administration and historical obligations (note 10) | **(3,629)** | (2,217) |
| | **2,150** | 891 |

## 10. Palatinate administration and historical obligations

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Administration of bona vacantia – costs met directly by the Duchy | **144** | 118 |
| Upkeep of castles and historic monuments | **3,077** | 1,696 |
| Rental and other income from castles | **(5)** | (2) |
| Savoy Chapel – stipends, running costs and repairs | **103** | 99 |
| Ceremonial, ancient stipends, charitable annuities and preservation of historic records | **263** | 253 |
| Administration of Duchy of Lancaster charitable funds | **47** | 53 |
| | **3,629** | 2,217 |

# Notes to the accounts (continued)

## 11. Analysis of Balance Sheet

| | Revenue | | Capital | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| | **£'000** | £'000 | **£'000** | £'000 |
| **Assets** | | | | |
| **Non-current assets** | | | | |
| Investment property | **–** | – | **549,951** | 491,937 |
| Property, plant and equipment | **–** | – | **6,041** | 6,034 |
| Financial assets | **4,142** | 4,772 | **66,317** | 64,853 |
| **Total non-current assets** | **4,142** | 4,772 | **622,309** | 562,824 |
| **Current assets** | | | | |
| Investment property assets held for sale | **–** | – | **961** | 1,251 |
| Trade and other receivables | **2,660** | 3,858 | **–** | 15 |
| Cash and cash equivalents | **9,630** | 6,874 | **3,906** | 2,907 |
| Balances due from Capital | **6,446** | 4,430 | **–** | – |
| **Total current assets** | **18,736** | 15,162 | **4,867** | 4,173 |
| **Total assets** | **22,878** | 19,934 | **627,176** | 566,997 |
| **Liabilities** | | | | |
| **Current liabilities** | | | | |
| Trade and other payables | **(18,312)** | (14,458) | **(4,267)** | (7,070) |
| Balances due to Revenue | **–** | – | **(6,446)** | (4,430) |
| **Total current liabilities** | **(18,312)** | (14,458) | **(10,713)** | (11,500) |
| **Non-current liabilities** | | | | |
| Borrowings | – | – | **(97,000)** | (60,000) |
| Interest rate swaps | – | – | **(1,939)** | (2,361) |
| Provisions | **(3,242)** | (3,872) | – | – |
| Retirement benefit obligations | **(145)** | 3 | **–** | – |
| **Total non-current liabilities** | **(3,387)** | (3,869) | **(98,939)** | (62,361) |
| **Total liabilities** | **(21,699)** | (18,327) | **(109,652)** | (73,861) |
| **Net assets** | **1,179** | 1,607 | **517,524** | 493,136 |
| **Capital and reserves** | | | | |
| Revenue Account | **2,234** | 2,222 | **–** | – |
| Capital Account | **–** | – | **517,524** | 493,136 |
| Retirement benefit reserve | **(1,055)** | (615) | – | – |
| **Total reserves** | **1,179** | 1,607 | **517,524** | 493,136 |

# 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 2015 | 237,277 | 163,753 | 58,898 | 2,727 | 462,655 |
| Purchases at cost | 11,928 | 4,800 | 1,165 | – | 17,893 |
| Transfers to Owner Occupied Property | – | – | (1,246) | – | (1,246) |
| Transfers to investment property held for sale | – | – | (290) | – | (290) |
| Disposals | (4,946) | (13) | (613) | – | (5,572) |
| Change in fair value | 21,913 | (4,048) | (975) | 1,607 | 18,497 |
| **Value at 31 March 2016** | **266,172** | **164,492** | **56,939** | **4,334** | **491,937** |

| | Commercial and indirect property investment £'000 | Agricultural woods minerals foreshores £'000 | Residential £'000 | Land held for development £'000 | Total £'000 |
|---|---|---|---|---|---|
| Value at 1 April 2016 | 266,172 | 164,492 | 56,939 | 4,334 | 491,937 |
| Purchases at cost | 37,570 | 6,077 | 2,277 | 265 | 46,189 |
| Disposals | (57) | (2) | (375) | – | (434) |
| Change in fair value | 9,802 | 3,149 | (397) | (295) | 12,259 |
| **Value at 31 March 2017** | **313,487** | **173,716** | **58,444** | **4,304** | **549,951** |

The changes in fair values are recognised in the Capital Account Statement of Comprehensive Income.

All landed property is situated in England and Wales. Purchases at cost include expenses of purchases and expenditure on permanent improvements of £4,077,000 (2016: £3,299,000). Sales proceeds are net of expenses of sale and development costs charged from Revenue.

At 31 March 2017 the commercial property portfolio was mainly 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 2017 by valuer is as follows:

| | |
|---|---|
| Knight Frank | 54% |
| Savills | 45% |
| Others | 1% |

# Notes to the accounts (continued)

## 13. Property, plant and equipment

| | Owner Occupied Property £'000 | Motor Vehicles £'000 | Plant & Equipment £'000 | Total £'000 |
|---|---|---|---|---|
| **Cost or valuation** | | | | |
| Balance at 1 April 2015 | 3,944 | 17 | 291 | 4,252 |
| Additions during the year | 14 | – | 22 | 36 |
| Change in fair value | 830 | – | – | 830 |
| Transfers from Investment property | 1,246 | – | – | 1,246 |
| Less: disposals during the year | – | – | (13) | (13) |
| **Balance at 31 March 2016** | **6,034** | **17** | **300** | **6,351** |
| **Accumulated depreciation** | | | | |
| Balance at 1 April 2015 | – | 5 | 235 | 240 |
| Charged during the year | – | 12 | 77 | 89 |
| Less: disposals during the year | – | – | (12) | (12) |
| **Balance at 31 March 2016** | **–** | **17** | **300** | **317** |
| Net Book Value | | | | |
| **31 March 2016** | **6,034** | **–** | **–** | **6,034** |

| | Owner Occupied Property £'000 | Motor Vehicles £'000 | Plant & Equipment £'000 | Total £'000 |
|---|---|---|---|---|
| **Cost or valuation** | | | | |
| Balance at 1 April 2016 | 6,034 | 17 | 300 | 6,351 |
| Additions during the year | 68 | – | 10 | 78 |
| Change in fair value | (61) | – | – | (61) |
| Transfers from Investment property | – | – | – | – |
| Less: disposals during the year | – | – | (16) | (16) |
| **Balance at 31 March 2017** | **6,041** | **17** | **294** | **6,352** |
| **Accumulated depreciation** | | | | |
| Balance at 1 April 2016 | – | 17 | 300 | 317 |
| Charged during the year | – | – | 10 | 10 |
| Less: disposals during the year | – | – | (16) | (16) |
| **Balance at 31 March 2017** | **–** | **17** | **294** | **311** |
| Net Book Value | | | | |
| **31 March 2017** | **6,041** | **–** | **–** | **6,041** |

# Notes to the accounts (continued)

## 14. Financial assets

| | Value at 1 April 2015 £'000 | Additions at cost £'000 | Sales proceeds £'000 | Change in market value £'000 | Value at 31 March 2016 £'000 |
|---|---|---|---|---|---|
| Capital Financial Assets | | | | | |
| Fixed interest unit trust | 4,497 | – | – | (1,391) | **3,106** |
| Equities and bonds | 47,418 | 36,333 | (27,833) | 138 | **56,056** |
| Private equity | 7,465 | – | (2,220) | 446 | **5,691** |
| | 59,380 | 36,333 | (30,053) | (807) | **64,853** |
| Other Financial Assets | | | | | |
| Fixed income unit trust | 5,202 | 461 | (1,000) | 109 | **4,772** |
| | 5,202 | 461 | (1,000) | 109 | **4,772** |
| Total | 64,582 | 36,794 | (31,053) | (698) | **69,625** |

| | Value at 1 April 2016 £'000 | Additions at cost £'000 | Sales proceeds £'000 | Change in market value £'000 | Value at 31 March 2017 £'000 |
|---|---|---|---|---|---|
| Capital Financial Assets | | | | | |
| Fixed interest unit trust | 3,106 | – | – | 1,389 | **4,495** |
| Equities and bonds | 56,056 | 25,581 | (30,581) | 5,628 | **56,684** |
| Private equity | 5,691 | – | (1,824) | 1,271 | **5,138** |
| | 64,853 | 25,581 | (32,405) | 8,288 | **66,317** |
| Other Financial Assets | | | | | |
| Fixed income unit trust | 4,772 | – | (943) | 313 | **4,142** |
| | 4,772 | – | (943) | 313 | **4,142** |
| Total | 69,625 | 25,581 | (33,348) | 8,601 | **70,459** |

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).

# 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 2015 | – | 1,321 | 1,095 | – | 2,416 |
| Purchases at cost | – | – | – | – | – |
| Transfers to investment property | – | – | – | – | – |
| Transfers from investment property | – | – | 290 | – | 290 |
| Disposals | – | (360) | (1,095) | – | (1,455) |
| **Value at 31 March 2016** | **–** | **961** | **290** | **–** | **1,251** |

| | Commercial and indirect property investment £'000 | Agricultural woods minerals foreshores £'000 | Residential £'000 | Land held for development £'000 | Total £'000 |
|---|---|---|---|---|---|
| Value at 1 April 2016 | – | 961 | 290 | – | 1,251 |
| Purchases at cost | – | – | – | – | – |
| Transfers to investment property | – | – | – | – | – |
| Transfers from investment property | – | – | – | – | – |
| Disposals | – | – | (290) | – | (290) |
| **Value at 31 March 2017** | **–** | **961** | **–** | **–** | **961** |

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.

# Notes to the accounts (continued)

## 16. Trade and other receivables

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Trade receivables (rents) | **745** | 1,090 |
| Other receivables | **139** | 164 |
| Prepayments and accrued income | **1,776** | 2,619 |
| | **2,660** | 3,873 |

As of 31 March 2017 trade receivables of £745,000 (2016: £1,090,000) were past due but not impaired.

The ageing analysis of these trade receivables is as follows:

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Under 3 months | **707** | 964 |
| 3 to 12 months | **11** | 111 |
| Over 12 months | **27** | 15 |

The ageing of impaired receivables is as follows:

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Under 3 months | **233** | 252 |
| 3 to 12 months | **54** | 47 |
| Over 12 months | **42** | 58 |

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:

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| At 1 April | **357** | 298 |
| Provision for receivables impairment | **(20)** | 66 |
| Receivables written off | **(8)** | (7) |
| **At 31 March** | **329** | 357 |

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.

## Notes to the accounts (continued)

### 17. Trade and other payables

| | **2017 £'000** | 2016 £'000 |
|---|---|---|
| Amounts falling due within one year: | | |
| Trade payables | **1,903** | 1,157 |
| Other taxes and social security | **911** | 863 |
| Other payables | **3,020** | 2,373 |
| Late claims provision | **900** | 900 |
| Accruals and deferred income | **9,440** | 12,092 |
| Due to the Privy Purse | **3,364** | 3,252 |
| Due for Duchy of Lancaster charitable purposes | **3,041** | 891 |
| | **22,579** | 21,528 |

### 18. Borrowings

| | **Less than 1 year £'000** | **1 to 5 years £'000** | **Over 5 years £'000** | **2016 Total £'000** |
|---|---|---|---|---|
| Borrowings | – | 15,000 | 45,000 | **60,000** |
| Interest rate swaps | – | 269 | 2,092 | **2,361** |

| | **Less than 1 year £'000** | **1 to 5 years £'000** | **Over 5 years £'000** | **2017 Total £'000** |
|---|---|---|---|---|
| Borrowings | – | 46,000 | 51,000 | **97,000** |
| Interest rate swaps | – | 1,040 | 899 | **1,939** |

The total borrowings of £97m consist of 6 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 3.98%. 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 3.3875%. 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 2.635%. Loan of £5m repayable July 2020, interest in the year is at a floating rate which has been fully swapped to a fixed rate of 2.914%. Loan of £5m repayable October 2025, interest in the year is at a floating rate, £2.5m of the loan has been swapped to a fixed rate of 3.0%. In the year the Duchy increased its borrowing by £37m, which is repayable September 2026, interest in the year is at a floating rate, £18.5m of the loan has been swapped to a fixed rate of 1.9725%. Floating rate is set at three month LIBOR.

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

The Duchy has six interest rate derivatives designated into cash flow hedge relationships on loan facilities totalling £48.5m. As at 31 March 2017 a loss of £1.939m was recognised in Other Comprehensive Income in the Capital Accounts Statement in respect of the fair value movement of the cash flow hedging derivatives.

# 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:

| | **2017 £'000** | 2016 £'000 |
|---|---|---|
| Provisions for late claims received from the bona vacantia account met directly by the Duchy | **–** | 1,332 |
| Provisions for late claims received from the bona vacantia account | **5** | – |
| Increase in value of investments | **313** | 108 |
| Claims paid during the year | **(948)** | (1,870) |
| Deficit for the year | **(630)** | (430) |
| Late Claims Fund balance at 1 April | **4,772** | 5,202 |
| Late Claims Fund balance at 31 March | **4,142** | 4,772 |

| | **2017 £'000** | 2016 £'000 |
|---|---|---|
| Shown as: | | |
| Included in Trade and other payables | **900** | 900 |
| Included in Non-current liabilities – provisions | **3,242** | 3,872 |

# Notes to the accounts (continued)

## 20. Retirement benefit obligations

A full actuarial valuation was carried out at 31 March 2015 and has been updated to 31 March 2017 by a qualified independent actuary. The major assumptions used by the actuary were:

| | **31 March 2017 % pa** | 31 March 2016 % pa | 31 March 2015 % pa | 31 March 2014 % pa | 31 March 2013 % pa |
|---|---|---|---|---|---|
| Rate of increase in pensionable salaries | **4.6** | 4.1 | 4.2 | 4.8 | 4.8 |
| Rate of increase in pensions in payment | **2.1** | 1.6 | 1.7 | 2.3 | 2.3 |
| Discount rate | **2.5** | 3.4 | 3.0 | 4.3 | 4.0 |
| Inflation assumption (RPI) | **3.1** | 2.6 | 2.7 | 3.3 | 3.3 |
| Inflation assumption (CPI) | **2.1** | 1.6 | 1.7 | 2.3 | 2.3 |

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

| | **Mortality assumption** | **Life expectancy** |
|---|---|---|
| Pensioners now aged 60 | | |
| Males | S2PA YOB with CMI 2016 | 26.6 |
| Females | projection and a long term rate | 28.6 |
| | of improvement of 1.25% | |
| Future pensioners from age 60 but currently aged 40 | | |
| Males | S2PA YOB with CMI 2016 | 28.2 |
| Females | projection and a long term rate | 30.2 |
| | of improvement of 1.25% | |

At 31 March 2017, the weighted-average duration of the Scheme's liabilities was approximately 12 years.

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

| | **Value at 31 March 2017 £'000** | Value at 31 March 2016 £'000 | Value at 31 March 2015 £'000 | Value at 31 March 2014 £'000 | Value at 31 March 2013 £'000 |
|---|---|---|---|---|---|
| Equities | **3,926** | 3,770 | 3,994 | 3,453 | 3,517 |
| Gilts | **5,608** | 1,074 | 1,060 | 872 | 916 |
| Corporate Bonds | **–** | 3,885 | 3,891 | 3,878 | 3,834 |
| Cash | **35** | 34 | 45 | 14 | 172 |
| Total market value of assets | **9,569** | 8,763 | 8,990 | 8,217 | 8,439 |
| Present value of Scheme benefits | **(9,714)** | (8,760) | (9,939) | (9,451) | (9,712) |
| **Surplus/(deficit) in the Scheme** | **(145)** | 3 | (949) | (1,234) | (1,273) |

# Notes to the accounts (continued)

## 20. Retirement benefit obligations (continued)

Analysis of the amount charged to operating profit:

| | **2017 £'000** | 2016 £'000 |
|---|---|---|
| Current service cost | **52** | 60 |
| Past service cost | **–** | – |
| Scheme administrative cost | **29** | 28 |
| Total operating charge | **81** | 88 |

Analysis of the amount credited to other finance income:

| | **2017 £'000** | 2016 £'000 |
|---|---|---|
| Interest income on Scheme assets | **294** | 266 |
| Interest on pension Scheme liabilities | **(288)** | (290) |
| Net interest on the net defined benefit asset/(liability) | **6** | (24) |

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

| | **2017 £'000** | 2016 £'000 |
|---|---|---|
| Net remeasurement (gain)/loss – financial | **1,507** | (541) |
| Net remeasurement (gain)/loss – demographic | **(288)** | (248) |
| Net remeasurement (gain)/loss – experience | **(33)** | (160) |
| Return on assets, excluding interest income | **(746)** | 240 |
| Total remeasurement of net defined benefit liability/(asset) to be shown in OCI | **440** | (709) |

Movement in Scheme liabilities during the year

| | **2017 £'000** | 2016 £'000 |
|---|---|---|
| Liabilities at start of year | **8,760** | 9,939 |
| Movement in year: | | |
| Current service cost | **52** | 60 |
| Interest cost | **288** | 290 |
| Contributions paid by Scheme members | **3** | 3 |
| Benefits paid | **(575)** | (583) |
| Net remeasurement (gain)/loss – financial | **1,507** | (541) |
| Net remeasurement (gain)/loss – demographic | **(288)** | (248) |
| Net remeasurement (gain)/loss – experience | **(33)** | (160) |
| Liabilities at end of year | **9,714** | 8,760 |

# Notes to the accounts (continued)

## 20. Retirement benefit obligations (continued)

Movement in Scheme assets during the year

| | **2017 £'000** | 2016 £'000 |
|---|---|---|
| Assets at start of year | **8,763** | 8,990 |
| Movement in year: | | |
| Interest income on Scheme assets | **294** | 266 |
| Return on assets, excluding interest income | **746** | (240) |
| Contributions (total paid by employer and scheme members) | **370** | 358 |
| Benefits paid | **(575)** | (583) |
| Scheme administrative cost | **(29)** | (28) |
| Assets at end of year | **9,569** | 8,763 |

| | **2017 £'000** | 2016 £'000 |
|---|---|---|
| Scheme assets | **9,569** | 8,763 |
| Scheme liabilities | **(9,714)** | (8,760) |
| Net (liability)/asset arising from retirement benefit obligations | **(145)** | 3 |

| | **Value at 31 March 2017 £'000** | Value at 31 March 2016 £'000 |
|---|---|---|
| Real Return Fund | | |
| LGIM UK Equity Index Fund | **3,926** | – |
| Newton Real Return Fund | **–** | 3,770 |
| | **3,926** | 3,770 |
| Bonds | | |
| LGIM 2027 Index-Linked Gilt Fund | **2,821** | – |
| LGIM 2035 Index-Linked Gilt Fund | **2,787** | – |
| Newton Index Linked Gilt Fund | **–** | 1,074 |
| Newton Long Corporate Bond Fund | **–** | 3,885 |
| | **5,608** | 4,959 |
| Cash and net current assets | **35** | 34 |
| Total | **9,569** | 8,763 |

# 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 is contracted-in to 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 2015 and revealed a deficit of £2,300,000. In the recovery plan dated 12 November 2015 the Duchy agreed to pay contributions of £285,864 per annum (increasing annually at 3% per annum) with the view to eliminating the shortfall by 30 April 2022.

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 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 12 November 2015.

(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 of the Scheme to the Duchy

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 over time 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.

# 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. 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 2017** |
|---|---|
| Discount rate -1.0% pa | +14% |
| Inflation rate (CPI) + 0.2% pa | +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 2015 and revealed a funding deficit of £2,300,000. In the recovery plan dated 12 November 2015 the Duchy has agreed to pay £285,864 per annum (increasing annually at 3% per annum) with the view to eliminating the shortfall by 30 April 2022.

In accordance with the schedule of contributions dated 12 November 2015 the Duchy is expected to pay contributions of £347,000 over the next accounting period. This includes a fixed annual amount of £50,000 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 12 years (calculated on the proposed IAS 19 assumptions at 31 March 2017).

# 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 2016.

| | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Available-for-sale equity securities | 63,934 | 5,691 | – | 69,625 |
| **Total recurring financial assets** | 63,934 | 5,691 | – | 69,625 |
| **Financial liabilities** | | | | |
| Interest rate swaps | – | 2,361 | – | 2,361 |
| **Total recurring financial liabilities** | – | 2,361 | – | 2,361 |
| **Non-financial assets:** | | | | |
| Investment properties | – | – | 491,937 | 491,937 |
| Owner occupied properties | – | – | 6,034 | 6,034 |
| **Total recurring non-financial assets** | – | – | 497,971 | 497,971 |
| **Non-recurring fair value measurements** | | | | |
| Property held for sale | – | – | 1,251 | 1,251 |
| **Total non-recurring assets** | – | – | 1,251 | 1,251 |

The following table sets out the Duchy's assets and liabilities that are measured and recognised at fair value at 31 March 2017.

| | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Available-for-sale equity securities | 65,321 | 5,138 | – | 70,459 |
| **Total recurring financial assets** | 65,321 | 5,138 | – | 70,459 |
| **Financial liabilities** | | | | |
| Interest rate swaps | – | 1,939 | – | 1,939 |
| **Total recurring financial liabilities** | – | 1,939 | – | 1,939 |
| **Non-financial assets:** | | | | |
| Investment properties | – | – | 549,951 | 549,951 |
| Owner occupied properties | – | – | 6,041 | 6,041 |
| **Total recurring non-financial assets** | – | – | 555,992 | 555,992 |
| **Non-recurring fair value measurements** | | | | |
| Property held for sale | – | – | 961 | 961 |
| **Total non-recurring assets** | – | – | 961 | 961 |

# Notes to the accounts (continued)

**21. Fair value measurements (continued)**

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 levels 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 |
|---|---|---|---|---|
| Unrealised gains/(losses) recognised in profit or loss attributable to assets held at the end of the reporting period | – | 12,259 | (61) | 12,198 |

# 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 |
|---|---|---|
| **Investment property**<br>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.<br><br>The methodologies applied by the valuers include the following: | | |
| **Investment Method:**<br>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. | Market rents are assessed on a tenant by tenant basis taking into account significant variation between location, sector, size and quality. | The higher the discount rate, terminal yield and expected vacancy rate the lower the fair value. |
| **Residual Method:**<br>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. | The estimated market value of a completed project, development costs and expected appreciation in the price | The lower the development costs the greater the anticipated market value |

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.

# Notes to the accounts (continued)

## 21. Fair value measurements (continued)

| Item | Valuation approach and inputs used | |
|---|---|---|
| **Financial Assets** | 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 |
| **Interest rate swaps** | 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

| | **2017 £'000** | 2016 £'000 |
|---|---|---|
| Net surplus on Revenue account | **19,240** | 17,830 |
| Adjusted for: | | |
| Depreciation | **10** | 89 |
| Current service costs less contributions to pension scheme | **(292)** | (243) |
| Net finance income | **(873)** | (1,382) |
| Net (expenditure)/income from escheats | **(3)** | 15 |
| Movement in dilapidations settlement | **3,000** | – |
| Increase in valuation of other financial investments | **(313)** | (109) |
| Loss/(profit) on disposal of property, plant and equipment | **–** | 1 |
| Decrease/(increase) in receivables | **1,213** | (641) |
| Increase/(decrease) in payables | **309** | (586) |
| Net cash inflow from operating activities | **22,291** | 14,974 |

## 23. Related party transactions

There were no charitable donations made during the year.

## 24. Financial risk management

A review of the Duchy's financial risks is set out in the Strategic Report on pages 13 to 15.

**Market Risk – cash flow and fair value interest rate 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.

# Notes to the accounts (continued)

## 24. Financial risk management (continued)

**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. Liquidity risk is minimised by holding over £55m in liquid assets, specifically equities and bonds, within the financial portfolio. 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 the 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 2017 the Duchy had entered into contracts for major improvements works that gave rise to a capital commitment of £815,000 (2016 £1,080,000).

## Duchy of Lancaster Rural Surveys

The Duchy of Lancaster Rural Surveys totalling approximately 18,500 hectares are located as follows:

| | Hectares |
|---|---|
| **The Staffordshire Survey** | **2,995** |
| Needwood estate | |
| **The Cheshire Survey** | **1,415** |
| Crewe estate | |
| Marbury estate | |
| **The Lancashire Survey** | **3,849** |
| Whitewell estate | |
| Myerscough estate | |
| Wyreside estate | |
| Salwick estate | |
| **The Yorkshire Survey** | **6,624** |
| Cloughton estate | |
| Pickering estate | |
| Marishes estate | |
| Goathland estate | |
| Pontefract estate | |
| **The Southern Survey** | **3,657** |
| Higham Ferrers estate | |
| Castleton estate | |
| Ogmore estate | |
| Lincolnshire estate | |
| | **18,540** |

# Accounts of the Solicitor for the Affairs of the Duchy of Lancaster for the year ended 30 September 2016

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 210 intestate estates (2015: 283) and 3,102 dissolved companies (2015: 2,133) were formally reported.

## Income and expenditure account for the year ended 30 September 2016

| | 2016<br>£ |
|---|---|
| **Income** | |
| Monies received from dissolved companies | **6,083,691** |
| Monies received from intestate estates | **2,110,670** |
| Interest and other | **14,286** |
| Monies received | **8,208,647** |
| **Expenditure** | |
| Payments to next of kin | **(1,181,001)** |
| Company restoration | **(689,995)** |
| Ex-gratia payments to claimants | **(121,111)** |
| Administration costs | **(799,554)** |
| Net income less expenditure | **5,416,986** |
| Paid to the Duchy of Lancaster | **(4,479,798)** |
| Net income for the year ended 30 September 2016 | **937,188** |
| **Cash balances at 1 October 2015** | **4,420,539** |
| Net income for the year ended 30 September 2016 | **937,188** |
| Cash balances at 30 September 2016 | **5,357,727** |

## Balance sheet as at 30 September 2016

| | 2016<br>£ |
|---|---|
| **Current assets** | |
| Cash and deposits | **5,357,727** |
| | **5,357,727** |
| **Current liabilities** | |
| The Duchy of Lancaster | **(2,691,820)** |
| Other creditors | **(73,500)** |
| | **(2,765,320)** |
| **Total assets less current liabilities** | **2,592,407** |
| Representing: | |
| Estates under administration | **2,592,407** |

# Accounts direction given by HM Treasury

## Operating Review

1. The Duchy of Lancaster shall prepare accounts for the financial year ended 31 March 2016 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 May 2014. It shall be reproduced as an appendix to the accounts.

Richard Brown
Treasury Officer of Accounts June 2016

# 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 2015 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 2018.

## Notes

## Notes

DUCHY *of* LANCASTER

# Annual Report

## Report and accounts of the Duchy of Lancaster for the year ended 31 March 2017

www.duchyoflancaster.co.uk

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