DUCHY *of* LANCASTER

Report and Accounts

Year ended 31st March 2019

Preserving the past, investing for the future

LLancaster Castle's John O'Gaunt gate.

Duchy of Lancaster

Annual Report

Report and accounts of the Duchy of Lancaster for the year ended 31 March 2019

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

Introduction

Introduction

The Duchy of Lancaster is a private estate in England and Wales 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 from all other Crown possessions.

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

Today, the estate covers 18,481 hectares of rural land divided into five Surveys: Cheshire, Lancashire, Staffordshire, Southern and Yorkshire. It also includes Foreshore ownerships, a Minerals Survey and a significant 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 second son Edmund (younger brother of the future Edward I) 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 enhanced by Edmund's mother, Eleanor of Provence, who bestowed on him the manor of the Savoy in 1284.

Edmund's inheritance passed to his son Thomas, Earl of Lancaster who was executed in 1322 by King Edward II for rebellion. Thomas's lands and titles were forfeited but eventually passed to his brother Henry and on his death to Henry's

Her Majesty The Queen, Duke of Lancaster.

The Whitewell Estate, Lancashire Survey.

Introduction *continued*

The Duchy began when Henry III gifted lands to his son.

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

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 thus made 2nd Duke of Lancaster in 1362 and he 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 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. He specified that it should be held separately from other Crown possessions, remaining always with the House of Lancaster.

After the War of the Roses, however, the bloodline of the historic Lancastrian kings was broken and Edward IV of York became King in 1461, taking possession of Henry VI's forfeited estates. By Act of Parliament, Edward IV 'incorporated' the Duchy, declaring that the Lancaster inheritance should descend through the Monarchy as a private estate to be held *"for ever to us and our heirs, Kings of England, separate from all other Royal possessions."*

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. This remains the case today.

The Duchy Today

More than 750 years on, the Duchy of Lancaster has in large part retained its historic land and 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 Duchy is administered by the Chancellor of the Duchy of Lancaster on behalf of the Sovereign. The Chancellor in turn delegates functions such as the management of the property portfolio, financial investments and the discharge of the Duchy's administrative duties to the Duchy Council. Members of Council are appointed by the Sovereign on the advice of the Chancellor. The day-to-day management of the Duchy is undertaken by the executive team who report to the Council.

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 all income received from the Duchy.

Guiding Principles

The Duchy of Lancaster is a historic organisation with a keen eye on the future. Our role is to ensure an appropriate balance between an ongoing 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 across England and Wales, the Duchy has a responsibility to protect and preserve this natural capital for future generations. Our partnership with our agricultural tenants extends beyond the contractual and includes the provision of professional support and guidance. Land use is monitored and investment in new technologies and energy sources actively encouraged.

Particular areas of focus this year have included developing a greater understanding of the biodiversity across our rural estates, sharing best practice around responsible soil management and improving farm presentation standards. We are encouraging our agricultural tenants to improve the quality and productivity of the land they farm while continuing to protect and preserve the Duchy's historic buildings and holdings.

The Duchy's business strategy is to continue to deliver sustainable revenue growth while working with its tenant communities and respecting at all times its unique heritage and values. It is a strategy which is continually reviewed and updated in response to market changes to ensure that the business remains appropriately focused and balanced.

There are many national heritage properties within the Duchy including ten castles, from Lancaster in the North to Ogmore in the South. While most of these are leased or entrusted to guardians responsible for managing visitor access, the Duchy maintains a watching brief over the upkeep and restoration of these historic monuments.

The rural and urban estates also include a number of residential development sites. These developments 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.

John of Gaunt, 2nd Duke of Lancaster.

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.

In 2017, we started to bring the management of all the Surveys in house. This process has now been successfully completed and all our Rural Surveys are now overseen by a multi-disciplinary team of rural surveyors, estate managers, building surveyors and rural accountants based in our London and Lancaster offices.

• Cheshire

The Cheshire Survey 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 1,402 hectares, stretching from the edge of the town to the M6 at Junction 16. There are 11 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 nine companies in flexible office suites of varying sizes surrounded by views of the open countryside.

The estate also includes a residential lettings portfolio of 75 rural cottages and farmhouses, as well as a roadside Service Area and a number of potential future development opportunities.

The smaller Marbury estate on the Shropshire border, consists of a single dairy farm and four residential properties let to local people.

Englesea House, Crewe Estate, Cheshire.

• Lancashire

The Lancashire Survey extends to 3,833 hectares in total, comprising four rural estates: Myerscough, Salwick, Whitewell and Wyreside.

The Duchy has owned Myerscough since the 13th century. There are six principal agricultural holdings on the 587-hectare estate, including

New Laund Farm on the Whitewell estate, Lancashire.

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 over 100 lettings for a variety of uses, from sheep farming to renewable energy sources and bridges.

three which form part of the renowned agricultural training centre at Myerscough College. Five residential properties and 22 commercial and miscellaneous lettings are also part of the estate.

The 491-hectare Salwick estate is predominantly farmland but includes around 23 hectares of woodland, as well as three residential properties and six commercial lettings. There are four equipped agricultural holdings on the estate, the majority of which are dairy farms.

At 2,447 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 eight main farms, 40 residential properties and over 30 commercial and miscellaneous lettings. The residential properties are clustered around picturesque villages such as Dunsop Bridge, while the commercial interests include office units, a post office, village store, café and hotel/ restaurant.

The Wyreside estate covers some 307 hectares, including one main agricultural holding and four residential properties. There are also 38 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 extends to a total of 3,668 hectares.

Since 2015 the Southern Survey has grown by 50 per cent. Four strategic acquisitions in Lincolnshire have increased our total land holding on this Estate to 1,053 hectares and supported

The Surveys *continued*

A number of Castles and historic properties are also included in the ancient Duchy inheritance, including Lancaster Castle and 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.

the Duchy's strategy of investing in root crop farming and arable farmland. The merger of two contiguous land holdings in 2016/17 created a new signature farm for the Lincolnshire Estate.

At Castleton in the Derbyshire Peak District, the Duchy owns 124 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, with a total land holding of 818 hectares, consisting 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 1,645 hectares of common land and includes an active limestone quarry, a Castle and a championship golf course at Southerndown.

The remaining 28 hectares are made up of smaller land holdings across the Southern Survey.

Eland Lodge Equestrian Centre, Needwood Estate in Staffordshire.

• Staffordshire

The Staffordshire Survey comprises the 2,970-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 49 arable, dairy, sheep and beef farms, 54 residential properties and 54 commercial, sporting and miscellaneous lettings. The commercial interests across the estate are diverse and range from specialist equestrian centres and liveries to shooting and fishing licences, live/work units and a private airfield.

In 2015 the Duchy entered into a ten-year woodland management plan to improve the quality of over 500 hectares of existing woodland, parts of which are open to the public. This included entering into a five-year Countryside Stewardship Higher Tier agreement with Natural England which commenced in 2017. 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. In 2018 the Needwood woodlands were also granted a Grown in Britain Forest licence.

- Yorkshire

The Yorkshire Survey covers 6,608 hectares across four main estates: Cloughton, Goathland, Pickering and Pontefract.

Cloughton is made up of 966 hectares of arable and pasture land as well as 31 residential tenanted properties. The creation of a sustainable new model farm at Fields Farm was completed in December 2015, moving the agricultural operation into the open countryside and facilitating the development of new family homes in the heart of the village. The second largest holding on the estate, the 235–hectare Ripleys Farm, attracted high levels of interest from new applicants keen to develop their own farming business when it was brought to the open market last year.

The 4,324-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 form the majority of the let interests on the estate.

The Pickering estate is home to a mix of arable and livestock farming. The 1,027-hectare estate also includes 308 hectares of mixed forestry.

The 156-hectare Pontefract estate lies on the edge of the town and consists of a single large farm and several commercial and residential properties.

Urban

The Duchy's Urban Survey makes a significant contribution to the portfolio. The Survey includes land and buildings on the Strand in Central London and Harrogate in North Yorkshire, as well as a portfolio of industrial/warehouse investments in London, the South East, the Midlands and the North West.

The Savoy Estate in London is the single largest asset block in the Urban portfolio, comprising mainly office and retail space. 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 strong mid-town commercial market being served by excellent transport links and benefitting from the public realm improvements instigated by the NorthBank Business Improvement District as well as the major investment that has taken place in nearby Covent Garden and surrounding area. 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.

Fields Farm on the Cloughton Estate in Yorkshire.

The Surveys *continued*

Warehousing and storage, Birmingham.

Office space Savoy Street, London

Industrial and manufacturing units, Swindon

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 includes a significant number of industrial/warehouse properties with the key core holdings in established locations such as Tower Bridge Business Park adjacent to the Old Kent Road in Greater London, Basingstoke, Harlow and Swindon in the South, Erdington and Redditch in the Midlands and Trafford Park, Blackburn and Speke in the North West.

The Duchy's Urban portfolio is strategically managed to ensure it remains well balanced and appropriately positioned to maximise returns.

Strategic Land

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 to deliver much-needed residential properties for local people.

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 development schemes at densities which are sympathetic to the natural landscape, while complementing the character of the surrounding built environment.

A key focus this year has been the identification of strategic partners who share this vision and whose schemes demonstrate a clear commitment to quality, design, sustainability and local market need. Three of these joint ventures progressed to site during the course of the year (Chalveston, Holtby and Marton-cum-Grafton) while in Harrogate we completed the first of these schemes in partnership with Linden Homes.

A number of land holdings have been identified as potential development sites in the year ahead and these are currently being taken forward with joint venture partners and the relevant local authorities as part of the formal planning process.

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

As part of its strategic asset allocation policy, the Duchy of Lancaster holds a financial investment portfolio. This takes the form of equities, bonds and other financial investments which help to provide liquidity within the wider portfolio. Our investment policy follows the advice and professional recommendations of third party investment consultants and fund managers. Decisions are made on the basis of appropriate asset allocation and all of our investments are fully audited and legally compliant.

Highlights of 2018-19

Rural Estate Management

Forest of Bowland, Lancashire.

In October of this year, the Duchy of Lancaster brought the management of the remaining rural estates in house. This was a consequence of the success of the previous year when two of the rural Surveys were brought under the Duchy's direct management.

The change has enabled the Duchy to bring a greater focus to the rural portfolio, improve the quality of communication with tenants and deliver consistent standards of support across all of the estates.

The team has been restructured and expanded with a number of new appointments. A Regional Surveyor of Lands has been appointed for the south and another for the north. Both report to the Duchy's Head of Rural and each is fully supported by multi-disciplinary teams in both the London and Lancaster offices.

The closer more direct relationship with the Duchy team has been warmly welcomed by tenants, partners and other key stakeholders across all Surveys.

Protecting Natural Habitats

As part of our ongoing commitment to sustainable environmental management the Duchy has completed a field-by-field audit of all its rural holdings in partnership with Natural England and the Game and Wildlife Conservation Trust (GWCT).

Having successfully mapped the diverse range of habitats that exist across our holdings we now have accurate data for all Surveys at an estate, farm and even field level. This information is in the process of being widely shared with our tenants, many of whom were engaged in the original data-gathering process.

The intelligence we have gained will form the basis of an action plan for both our tenants and the Duchy team in the year ahead as we work to protect and preserve natural habitats for wild pollinators and other indigenous flora and fauna.

Slow the Flow project, Yorkshire.

Respecting The Land

The Duchy hosted two soil health workshops for tenants this year at the GWCT model farm in Loddington. They were designed to highlight the impact of different farming practices on the long-term health and productivity of the land.

Attendees discussed the theory of responsible soil management before viewing the effect of different farming practices on a series of exemplar plots developed on site. Sharing their personal

Soil workshop, Loddington.

experiences and professional expertise as custodians of the land, guests were then invited to compare soil samples and explore the potential for further improvement.

In the year ahead we plan to work with our farming tenants to share best practice more widely and identify appropriate actions to help protect the long-term sustainability of the land.

Enhancing Our Woodland

The Duchy has developed a comprehensive woodland management strategy for the next five years and appointed a specialist consultancy to support its delivery. A key part of this commitment is the planting of indigenous species of trees.

Highlights of 2018-19 *continued*

Tree planting with local schoolchildren in Whitewell.

50 native species trees will form an avenue in Whitewell.

Last year we acquired 128 acres of woodland adjoining the Whitewell Estate in Lancashire. In early 2019 we planted an avenue of fifty native trees on the estate in an area already recognised as an Area of Outstanding Natural Beauty. We aim to plant 100 acres of new trees in 2020.

We are also backing the Grown in Britain initiative which seeks to ensure a sustainable future for UK forests and woodlands protecting wildlife habitats and the natural environment whilst providing local employment and supporting rural economies. The organisation has quality assured and certified 2,818 acres of Duchy owned woodland this year.

New Landmark

Work has commenced on the Duchy's largest ever refurbishment project at 105-109 Strand, London. An iconic 1920s building is being reconfigured and refitted to provide a new landmark address in the heart of the Duchy's historic Savoy estate.

Due to complete in the autumn of 2020, the redesign will include additional storeys, outdoor terraces and open plan office space and will offer exceptional views over the Thames.

The Duchy has pre-let the ground floor retail unit and is in active discussions with a variety of occupiers in respect of the commercial space.

Creating a new landmark on the Strand in the heart of the Savoy.

The new scheme will open up historic spaces such as the Savoy Steps.

Strategic Report

Financial and Risk Review

- The Net Surplus has increased in the year by 7.6% to £21.7m (2018: £20.2m).
- Increase in Net Asset Value of 2.8% to £548.6m (2018: £533.8m).

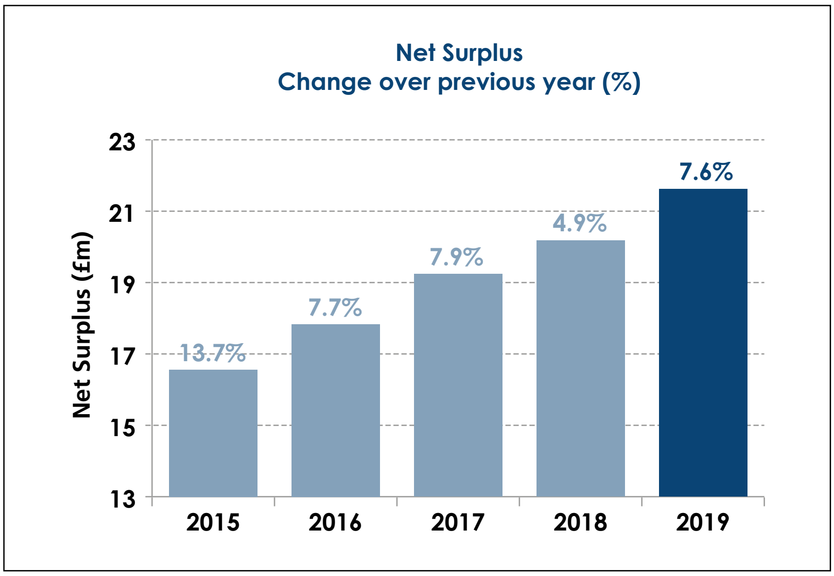
This has been another positive year for the Duchy, with strong growth in almost all of our business sectors. The continued priority and push on quality and sustainability, as well as a more focussed in-house approach to the management of our surveys has served us well in the year and contributed significantly to further improving tenant relations, reducing voids and increasing efficiency.

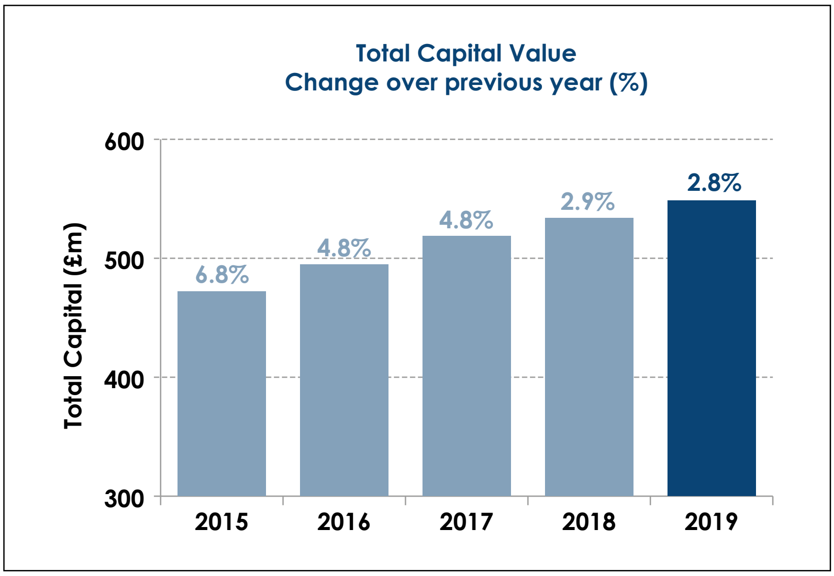
Over the year, the Duchy purchased £2.3m of land and property and sold £8.4m. Overall, the Duchy has invested £6.8m in repairs and improvements.

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*

Bluebells and woodland in Whitewell, Lancashire.

Liquidity and the Financial Portfolio

Over the year, the Duchy has increased its borrowing levels to £102m 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 of up to £125m. In accordance with the revised borrowing policy and risk mitigation, approximately 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.

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.

Cyber risk
The Duchy is very aware that our corporate IT systems are at the core of our operations and although secure, could be exposed to criminal cyber-attacks. This risk is mitigated by a number of advanced IT safeguards.

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 Alan Reid GCVO
Nathan Thompson
London
4 July 2019

Wulvarn Brook on the Crewe Estate in Cheshire.

Report of Council

Review of Governance

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

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

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

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

Political and charitable donations
Charitable donations were made from the net income from the bona vacantia and Palatinate account credited to Duchy of Lancaster charitable funds, as described 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 59-60. The Chancellor has designated the members of the Council of the Duchy of Lancaster as the Proper Officers and 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.

Duchy of Lancaster offices, Lancaster Place.

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 have served since 1 April 2018 were:

- Sir Alan Reid GCVO (Chairman of the Council)
- Sir Michael Stevens KCVO (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)
- Miss Kathryn Matthews
- Mr Hugh Bullock
- The Marquess of Downshire
- Mr Marcus Rose

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

Report of Council *continued*

The Statue of Justice representing the courts stands guard over 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 has largely predictable income streams.

Sir Alan Reid GCVO
Nathan Thompson
London
4 July 2019

The Queen's Chapel of the Savoy also serves as the Chapel of the Royal Victorian Order.

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

Opinion

We have audited the financial statements of Duchy of Lancaster for the year ended 31 March 2019 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 to the financial statements, including a summary of significant accounting policies. 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 2019.

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Duchy as at 31 March 2019; and
- the financial statements have been properly prepared in accordance with 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 2019; and
- the financial statements have been prepared in accordance with the requirements of the Accounts Direction given by the Treasury dated June 2019.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Proper Officers' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Proper Officers have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Duchy of Lancaster's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Proper Officers are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the Strategic Report and the Report of Council have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Duchy of Lancaster and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Report of Council.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us 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 specified by Accounts Direction given by the Treasury dated June 2019 are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of the Proper Officers

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, and for such internal control as the Proper Officers determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Proper Officers are responsible for assessing the Duchy's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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 auditor's 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.

Jamie Younger (Statutory Auditor)
for and on behalf of Saffery Champness LLP
Chartered Accountants
Statutory Auditors
71 Queen Victoria Street
London EC4V 4BE
4 July 2019

Revenue Account Statement of Comprehensive Income

	Note	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Revenue	*2*	**27,160**	25,620
Operating costs	*3*	**(4,042)**	(4,517)
Administrative expenses		**(1,683)**	(1,620)
Operating surplus		**21,435**	19,483
Finance income	*5*	**2,654**	2,821
Finance costs	*6*	**(2,365)**	(2,156)
Net operating income		**21,724**	20,148
Development expenditure recovered from Capital		**–**	36
Net proceeds from bona vacantia	*9*	**573**	2,250
Payable for Duchy of Lancaster charitable purposes		**(573)**	(2,250)
Net surplus for the year		**21,724**	20,184
Other comprehensive income:			
Items that will not be reclassified to profit and loss			
Actuarial (loss)/gain on retirement benefit obligations	*20*	**(385)**	138
Total comprehensive income on Revenue account		**21,339**	20,322

The notes to the accounts on pages 26 to 56 are an integral part of these financial statements.

Capital Account Statement of Comprehensive Income

	Note	**Year ended 31 March 2019 £'000**	Year ended 31 March 2018 £'000
Net gain from fair value adjustment on investment property	*12*	**12,526**	12,223
Gain on disposal of investment property		**1,785**	229
Loss on disposal of property held for sale		**(274)**	–
Repayments to capital:			
Proportion of mineral royalties	*3*	**65**	66
Less recovery of capital valuation fees		**(65)**	(66)
Net (expenditure)/income from escheats		**(11)**	227
Net gain on the disposal of financial assets	*14*	**407**	545
Gain on dilapidations provision		**–**	3,838
Loss on financial derivatives		**(1,020)**	–
Surplus for the year on Capital account		**13,413**	17,062
Other comprehensive income:			
Items that will be reclassified to profit and loss			
Loss on the revaluation of financial assets measured at fair value through other comprehensive income	*14*	**(122)**	(1,403)
(Loss)/gain on financial derivatives		**(1,241)**	1,461
Items that will not be reclassified to profit and loss			
Net gain/(loss) on the revaluation of financial assets measured at fair value through other comprehensive income	*14*	**3,128**	(2,299)
Net (loss)/gain from fair value adjustment on other property	*13*	**(275)**	54
Loss from impairment on property held for sale		**–**	(17)
Total comprehensive income on Capital account		**14,903**	14,858

The notes to the accounts on pages 26 to 56 are an integral part of these financial statements.

Balance sheet

	Note	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Assets			
Non-current assets			
Investment property	*12*	**580,097**	564,734
Property, plant and equipment	*13*	**5,820**	6,095
Financial assets	*14*	**70,002**	65,268
Total non-current assets		**655,919**	636,097
Current assets			
Investment property assets held for sale	*15*	**–**	1,311
Trade and other receivables	*16*	**3,454**	3,411
Cash and cash equivalents		**14,466**	12,788
Total current assets		**17,920**	17,510
Total assets		**673,839**	653,607
Liabilities			
Current liabilities			
Trade and other payables	*17*	**(27,838)**	(20,515)
Total current liabilities		**(27,838)**	(20,515)
Non-current liabilities			
Borrowings	*18*	**(94,500)**	(97,000)
Interest rate swaps	*18*	**(1,719)**	(478)
Provisions	*19*	**(1,309)**	(2,044)
Retirement benefit obligations	*20*	**129**	260
Total non-current liabilities		**(97,399)**	(99,262)
Total liabilities		**(125,237)**	(119,777)
Net assets		**548,602**	533,830
Capital and reserves			
Capital Account		**549,004**	532,860
Capital hedging reserve	*18*	**(1,719)**	(478)
Revenue Account		**2,619**	2,365
Retirement benefit reserve		**(1,302)**	(917)
Total reserves		**548,602**	533,830

Sir Alan Reid GCVO
Nathan Thompson

4 July 2019

The notes to the accounts on pages 26 to 56 are an integral part of these financial statements.

Statement of Changes in Capital and Reserves

		Capital account		Revenue account		Total
		Capital reserve	Capital hedging reserve	Revenue reserve	Retirement benefit reserve	
	Note	£'000	£'000	£'000	£'000	£'000
Balance as at 31 March 2017		519,463	(1,939)	2,234	(1,055)	**518,703**
Net surplus for the year		17,062	–	20,184	–	**37,246**
Other comprehensive income:						
Net gain from fair value adjustment on other property	*13*	54	–	–	–	**54**
Net loss on the revaluation of financial assets	*14*	(3,702)	–	–	–	**(3,702)**
Net loss from impairment on property held for sale		(17)	–	–	–	**(17)**
Gain on financial derivatives		–	1,461	–	–	**1,461**
Actuarial gain on retirement benefit obligations	*20*	–	–	–	138	**138**
Less amounts payable to the Privy Purse		–	–	(20,053)	–	**(20,053)**
Balance as at 31 March 2018		532,860	(478)	2,365	(917)	**533,830**
Net surplus for the year		13,413	–	21,724	–	**35,137**
Other comprehensive income:						
Net loss from fair value adjustment on other property	*13*	(275)	–	–	–	**(275)**
Net gain on the revaluation of financial assets	*14*	3,006	–	–	–	**3,006**
Loss on financial derivatives		–	(1,241)	–	–	**(1,241)**
Actuarial loss on retirement benefit obligations	*20*	–	–	–	(385)	**(385)**
Less amounts payable to the Privy Purse		–	–	(21,470)	–	**(21,470)**
Balance as at 31 March 2019		549,004	(1,719)	2,619	(1,302)	**548,602**

Statement of Cash Flows

	Note	**Year ended 31 March 2019 £'000**	Year ended 31 March 2018 £'000
Cash generated from operating activities	*22*	**18,480**	20,156
Interest paid		**(2,365)**	(2,156)
Net cash from operating activities		**16,115**	18,000
Cash flows from investing activities			
Purchase and improvement of investment property		**(8,162)**	(3,638)
Purchase of property held for sale		**–**	(17)
Purchase of financial investments		**(6,490)**	(17,872)
Purchase of other financial investments		**(100)**	–
Purchase of property, plant and equipment		**(45)**	(22)
Proceeds from disposal of investment properties		**7,150**	958
Proceeds from disposal of property held for sale		**997**	–
Proceeds from disposal of financial investments		**5,332**	19,906
Financial investment income		**2,654**	2,821
Net cash inflow from investing activities		**1,336**	2,136
Cash flows from financing activities			
Proceeds from additional borrowings		**5,000**	–
Payments made to the Privy Purse		**(20,773)**	(20,884)
Net cash outflow from financing activities		**(15,773)**	(20,884)
Increase/(decrease) in cash in the year		**1,678**	(748)
Cash and cash equivalents at start of year		**12,788**	13,536
Cash and cash equivalents at end of year		**14,466**	12,788

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 on 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 59-60.

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 Accounts Direction set out on pages 59-60 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.

Adoption of new and revised standards

During the financial year, the Duchy has adopted the following new IFRSs (including amendments thereto) and IFRIC interpretations, that became effective for the first time.

Standard	Effective date, annual period beginning on or after
IFRS 9 *Financial instruments*	1 January 2018
IFRS 15 *Revenue from contracts with customers*	1 January 2018

IFRS 9 *Financial instruments*

In the current year, the Duchy has applied IFRS 9 Financial instruments (as revised July 2014) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after 1 January 2018. The transition provisions of IFRS 9 allow an entity not to restate comparatives. However, The Duchy has elected to restate comparatives in respect of the classification and measurement of financial instruments.

Additionally, the Duchy adopted consequential amendments to IFRS 7 Financial Instrument Disclosures that were applied to the disclosures for 2018 and to the comparative period.

IFRS 9 introduced new requirements for;

1. The classification and measurement of financial assets and financial liabilities.
2. Impairment of initial assets, and
3. General hedge accounting.

Details of these new requirements as well as their impact on the Duchy's financial statements are described below.

The Duchy has reviewed and assessed their existing financial assets as at 1 April 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has had the following impact on the Duchy's financial assets as regards to their classification and measurement;

- The Duchy's investments in corporate bonds that were classified as available-for-sale financial assets under IAS 39 have been classified as financial assets at Fair Value Through Other Comprehensive Income (FVTOCI) because they are held within a business model whose objective is both to collect contractual cash flows and to sell the bonds, and they have contractual cash flows that are solely payments of principal and interest on principal outstanding. The change in fair value on these redeemable notes continues to accumulate in other comprehensive income until they are recognised or reclassified.

Notes to the accounts (continued)

(a) Basis of accounting (continued)

- The Duchy's investments in equity instruments that were previously classified as available-for-sale financial assets and were measured at fair value at each reporting date under IAS 39 have been designated as at FVTOCI. The change in fair value on these equity instruments continues to accumulate in other comprehensive income.

In relation to impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss method under IAS 39. The expected credit loss model requires the Duchy to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in the credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised. Corporate bonds are assessed to have low credit risk at each reporting date based upon their respective external credit ratings. The Duchy assumes that the credit risk on these financial instruments has not increased significantly since initial recognition as permitted by IFRS 9 and recognises 12 months expected credit loss for these assets. IFRS 9 also allows a simplified approach for measuring the loss allowance at an amount equal to the lifetime expected credit loss for trade receivables and lease receivables in certain circumstances.

IFRS 9 has relaxed the requirements for hedge effectiveness, by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the hedged ratio to be the same as the one management actually uses for risk management purposes. In accordance with IFRS 9's transition provisions for hedge accounting, the Duchy has applied the IFRS 9 hedge accounting requirements prospectively from the date of initial application on 1 April 2018. The Duchy's qualifying hedging relationships in place as at 1 January 2018 also qualify for hedge accounting in accordance with IFRS 9 and were therefore regarded as continuing hedging relationships. As the critical terms of the hedging instruments match those of their corresponding hedged items, all hedging relationships continue to be effective under IFRS 9's effectiveness assessment requirements. The Duchy has also not designated any hedging relationships under IFRS 9 that would not have met the qualifying hedge accounting criteria under IAS 39.

IFRS 15 *Revenue from contracts with customers*

IFRS 15, 'Revenue from contracts with customers', deals with revenue recognition and establishes principals for reporting useful information to users of financial statements about the nature, amount, timings and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and has the ability to direct the use and obtain the benefits of the good or service. Variable consideration is included in the transaction price if it is highly probable that there will be no significant referral of the cumulative revenue recognised. The standard replaced IAS 18 'Revenue' and IAS 11 'Construction Contracts' and related interpretations. There was no material impact for the Duchy and the profile of cash receipts was not affected by this standard.

Standards issued but not yet effective:

At the date of authorisation of these financial statements, the following standards and interpretations relevant to the Duchy and which have not been applied in these financial statements, were in issue but were not yet effective. In some cases these standards and guidance have not been endorsed for use in the European Union.

Standard	Effective date, annual period beginning on or after
IFRS 16 *Leases*	1 January 2019
Conceptual Framework and Amendments to References to the Conceptual Framework in IFRS Standards	1 January 2020
Amendments to IAS 1 and IAS 8: *Definition of Material*	1 January 2020

Notes to the accounts (continued)

(a) Basis of accounting (continued)

IFRS 16, 'Leases' addresses the definition of a lease, recognition and measurement of leases and establishes principals for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases will be accounted for on the balance sheet of lessees. The standard replaces IAS 17' Leases', and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted.

The Duchy is in the process of reviewing contracts to identify any additional lease arrangements that would need to be recognised under IFRS 16. The Duchy anticipates that there are no material operating leases where they act as lessee that will be required to be recognised on the balance sheet.

There are no other standards that are not yet effective and that would be expected to have a material impact on the Duchy in the current or future reporting periods and on foreseeable future transactions.

(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 2 years' worth of late claims, which is deemed appropriate by management given the anticipated level of late claims. The provision at the year end is equal to the other financial assets balance in note 14 as these funds are held in a bond. Further details on proceeds from Bona Vacantia are disclosed in note 9.

Financial instruments valuations

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

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

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

Property valuations

Investment properties, owner occupied properties and investment properties 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 availability of a market for the properties, and published life tables.

Notes to the accounts (continued)

(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 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.

(f) Financial assets
Financial assets are initially measured at fair value. Transactions costs that are directly attributable to the acquisition or issue of financial assets (other than financial assets at fair value through profit or loss) are added to fair value of financial assets, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at fair value through profit or loss are recognised immediately in profit or loss.

Notes to the accounts (continued)

(f) Financial assets (continued)
As mentioned in note 1a, debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI);
(i) The financial asset is held with a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
(ii) The contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Duchy has designated all investments in equity instruments that are not held for trading at FVTOCI on initial application of IFRS 9. See Note 1a and Note 14.

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

(g) Depreciation
(i) In accordance with IAS 40 no depreciation is provided on investment properties.
(ii) Revenue fixed assets are 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 royalties
The receipts from mineral royalties are apportioned on the basis of one half to Capital and one half to Revenue. Mineral royalties are accounted for on an accruals basis dependent on the timing of extraction.

(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.

Notes to the accounts (continued)

(m) Bona vacantia

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

Net income from bona vacantia, 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.

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 2018. The accounts of the Solicitor for the Affairs of the Duchy of Lancaster for the year ended 30 September 2018 are, for the purposes of information, set out on page 58.

(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. The Duchy applied the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

(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. Fees paid on the establishment of loan facilities are capitalised and amortised over the period to the facility to which it relates.

Notes to the accounts (continued)

(r) Hedge accounting

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

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

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

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

(s) Cash flow hedges

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

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

Hedge accounting is discontinued when the Duchy revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for 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

	2019	2018
	£’000	£’000
Income from Property		
Commercial	**18,844**	18,171
Agricultural	**5,501**	4,669
Residential	**2,377**	2,334
Mineral rents and royalties	**438**	424
Indirect property investment income	**–**	22
Total	**27,160**	25,620

Notes to the accounts (continued)

3. Operating costs

	Repairs and other direct costs £'000	Repayments to Capital £'000	Total 2019 £'000	Total 2018 £'000
Expenditure on property				
Commercial	1,134	–	**1,134**	1,168
Agricultural	525	–	**525**	763
Residential	577	–	**577**	709
Mineral rents and royalties	–	65	**65**	66
	2,236	65	**2,301**	2,706
Staff costs, administration and professional fees	1,741	–	**1,741**	1,811
Total	3,977	65	**4,042**	4,517

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:

	2019 £'000	2018 £'000
Less than one year	**19,987**	19,809
Between two to five years	**59,545**	61,956
After five years	**167,901**	175,239
	247,433	257,004

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

5. Finance income

	2019 £'000	2018 £'000
Interest on fixed interest stocks and unit trusts	**832**	1,045
Income from equities	**1,813**	1,788
Bank and other interest	**45**	23
Investment management fees	**(36)**	(35)
	2,654	2,821

Notes to the accounts (continued)

6. Finance costs

	2019 £'000	2018 £'000
Loan interest	**2,365**	2,156

7. Total comprehensive income for the year

	2019 £'000	2018 £'000
Total comprehensive income for the year is arrived at after charging:		
Staff costs (note 8(a))	**2,801**	2,581
Depreciation of Property, Plant and Equipment	**45**	22
Auditors' remuneration		
– audit services	**27**	26
– non-audit services	**–**	4

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:

	2019 £'000	2018 £'000
Wages and salaries	**2,046**	1,863
Social security costs	**250**	234
Pension contributions	**505**	484
	2,801	2,581

(b) The average number of employees (excluding the Chancellor and non-executive Council members) during the year was 29 (2018: 21).

Notes to the accounts (continued)

8. Employee information (continued)

(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	Taxable benefits and allowances £'000	**Total 2019 £'000**	Total 2018 £'000
Rt Hon David Lidington MP (appointed as Chancellor on 11 January 2018)	–	–	**–**	–
Rt Hon Patrick McLoughlin MP (retired as Chancellor on 11 January 2018)	–	–	**–**	–
Sir Alan Reid GCVO (appointed as Chairman on 1 January 2018)	70	–	**70**	18
Sir Michael Stevens KCVO (appointed 1 January 2018)	–	–	**–**	–
Sir Mark Hudson KCVO (retired 31 December 2017)	–	–	**–**	51
Mr Nathan Thompson	260	2	**262**	252
Mr Christopher Adcock LVO	160	2	**162**	157
Mr Martin Beaumont CVO (retired 31 October 2017)	–	–	**–**	11
Mr Robert Miles QC	15	–	**15**	15
Miss Kathryn Matthews	18	–	**18**	18
Mr Hugh Bullock	18	–	**18**	18
The Marquess of Downshire (appointed 1 January 2018)	18	–	**18**	5
Mr Marcus Rose (appointed 1 January 2018)	15	–	**15**	4

Banded performance payments relating to the relevant financial year have been paid as follows:

	2019	2018
Between £85,001 and £90,000	**–**	1
Between £45,001 and £50,000	**1**	–
Between £40,001 and £45,000	**–**	1
Between £20,001 and £25,000	**1**	–

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

	2019 £'000	**2018** £'000
Mr Nathan Thompson	**31**	30
Mr Christopher Adcock LVO	**21**	20

Notes to the accounts (continued)

9. Net proceeds from bona vacantia

	2019 **£'000**	2018 £'000
Proceeds from bona vacantia	**4,879**	5,705
Provisions for late claims transferred to Late Claims Fund	**(100)**	–
	4,779	5,705
Costs of palatinate administration and historical obligations (note 10)	**(4,206)**	(3,455)
	573	2,250

A charitable donation of £1,000,000 (2018: £250,000) was made to the Duke of Lancaster Housing Trust arising from the surplus receipts of bona vacantia. The Chief Executive Officer acts as a trustee of the Duke of Lancaster Housing Trust.

A charitable donation of £200,000 (2018: £nil) was made to the Duchy of Lancaster Benevolent Fund arising from the surplus receipts of bona vacantia. The Receiver General, the Attorney General and the Chief Finance Officer of the Duchy of Lancaster together with the Vice Chancellor of the County Palatine act as trustees of the Duchy of Lancaster Benevolent Fund.

10. Palatinate administration and historical obligations

	2019 **£'000**	2018 £'000
Administration of bona vacantia – costs met directly by the Duchy	**133**	128
Upkeep of castles and historic monuments	**3,777**	2,985
Rental and other income from castles	**(4)**	(4)
Savoy Chapel – stipends, running costs and repairs	**(4)**	7
Ceremonial, ancient stipends, charitable annuities and preservation of historic records	**251**	284
Administration of Duchy of Lancaster charitable funds	**53**	55
	4,206	3,455

Notes to the accounts (continued)

11. Analysis of Balance Sheet

	Revenue		Capital	
	2019	2018	**2019**	2018
	£'000	£'000	**£'000**	£'000
Assets				
Non-current assets				
Investment property	**–**	–	**580,097**	564,734
Property, plant and equipment	**–**	–	**5,820**	6,095
Financial assets	**2,309**	3,620	**67,693**	61,648
Total non-current assets	**2,309**	3,620	**653,610**	632,477
Current assets				
Investment property assets held for sale	**–**	–	**–**	1,311
Trade and other receivables	**2,954**	3,411	**500**	–
Cash and cash equivalents	**9,051**	11,329	**5,415**	1,459
Balances due from Capital	**7,448**	4,863	**–**	–
Total current assets	**19,453**	19,603	**5,915**	2,770
Total assets	**21,762**	23,223	**659,525**	635,247
Liabilities				
Current liabilities				
Trade and other payables	**(19,265)**	(19,991)	**(8,573)**	(524)
Balances due to Revenue	**–**	–	**(7,448)**	(4,863)
Total current liabilities	**(19,265)**	(19,991)	**(16,021)**	(5,387)
Non-current liabilities				
Borrowings	**–**	–	**(94,500)**	(97,000)
Interest rate swaps	**–**	–	**(1,719)**	(478)
Provisions	**(1,309)**	(2,044)	**–**	–
Retirement benefit obligations	**129**	260	**–**	–
Total non-current liabilities	**(1,180)**	(1,784)	**(96,219)**	(97,478)
Total liabilities	**(20,445)**	(21,775)	**(112,240)**	(102,865)
Net assets	**1,317**	1,448	**547,285**	532,382
Capital and reserves				
Revenue Account	**2,619**	2,365	**–**	–
Capital Account	**–**	–	**547,285**	532,382
Retirement benefit reserve	**(1,302)**	(917)	**–**	–
Total reserves	**1,317**	1,448	**547,285**	532,382

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 2017	313,487	173,716	58,444	4,304	549,951
Purchases at cost	1,833	451	1,354	–	3,638
Transfers to investment property held for sale	–	–	(350)	–	(350)
Disposals	(333)	(8)	(387)	–	(728)
Change in fair value	11,579	3,860	(3,012)	(204)	12,223
Value at 31 March 2018	**326,566**	**178,019**	**56,049**	**4,100**	**564,734**

	Commercial and indirect property investment £'000	Agricultural woods minerals foreshores £'000	Residential £'000	Land held for development £'000	Total £'000
Value at 1 April 2018	326,566	178,019	56,049	4,100	564,734
Purchases at cost	4,263	433	970	2,496	8,162
Transfers from investment property held for sale	–	40	–	–	40
Disposals	(5,200)	–	(165)	–	(5,365)
Change in fair value	6,894	2,081	817	2,734	12,526
Value at 31 March 2019	**332,523**	**180,573**	**57,671**	**9,330**	**580,097**

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 £5,888,000 (2018: £3,085,000). Sales proceeds are net of expenses of sale and development costs charged from Revenue.

At 31 March 2019 virtually all of the commercial property portfolio was valued externally by professionally qualified valuers. The rural property portfolio was valued externally by professionally qualified valuers. The breakdown of the external valuations at 31 March 2019 by valuer is as follows:

Knight Frank	55%
Savills	44%
Others	1%

Notes to the accounts (continued)

Quantitative data about fair value measurement using unobservable inputs (Level 3)

	Property type	Fair value at 31 March 2019	Valuation techniques	Unobservable inputs	Range of unobservable inputs (where meaningful)
		£'000			
Agricultural & forestry	Agricultural	144,450	Yield methodology	Rental values Capitalisation rate	– Farms: 1.2% to 3%
					Bare land: 1.2% to 1.8%
			Adjusted sales comparison approach	Farmland vacant posession values	£958/acre to £10,500/acre (average £5,480/acre)
				Discount rate for terminal value	4.5% to 5%
				Estimate of period until vacant posession achieved	0 to 33 years (average 6.46 years)
	Forestry	9,190	Adjusted sales comparison approach	Forestry vacant posession values	£500/acre to £4,500/acre (average £2,532/acre)
	Development land	9,330	Discounted cash flow	Discount rate	7% to 15% (average 11.3%)
				Risk factor	10% to 80% (average 52%)
				Time to completion	3 to 25+ years (average 10 years)
	Other rural assets	26,933	Yield methodology	Rental values Capitalisation rate	– 1.2% to 22.6%
			Adjusted sales comparison approach	Adjusted comparable vacant possession values	£32/acre to £4.041/acre
	Total	**189,903**			
Commercial	Urban commercial	313,207	Yield methodology	Rental values	Industrial : £2.75 to £17.0 psf Office : £10.5 to £70.0 psf Retail: £24.5 to £225.0 psf
				Capitalisation rate	Industrial : 4.5% to 7.25% Office : 3.0% to 10.0% Retail: 4.5% to 7.75% Other: 3.0% to 10.0%
	Rural commercial	19,316	Yield methodology	Rental values	–
				Capitalisation rate	2.8% to 44% (average 10.6%)
	Total	**332,523**			
Residential		57,671	Adjusted sales comparison approach	Adjusted comparable vacant posession values	–
				Discount rate for terminal value	4.5% to 6.5%
				Estimate of period until vacant posession achieved	0 to 51 years (average 4.72 years)
	Total	**57,671**			

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 2017	6,041	17	294	6,352
Additions during the year	–	–	22	22
Change in fair value	54	–	–	54
Transfers from Investment property	–	–	–	–
Less: disposals during the year	–	–	(3)	(3)
Balance at 31 March 2018	**6,095**	**17**	**313**	**6,425**
Accumulated depreciation				
Balance at 1 April 2017	–	17	294	311
Charged during the year	–	–	22	22
Less: disposals during the year	–	–	(3)	(3)
Balance at 31 March 2018	**–**	**17**	**313**	**330**
Net Book Value				
31 March 2018	**6,095**	**–**	**–**	**6,095**

	Owner Occupied Property £'000	Motor Vehicles £'000	Plant & Equipment £'000	Total £'000
Cost or valuation				
Balance at 1 April 2018	6,095	17	313	6,425
Additions during the year	–	–	45	45
Change in fair value	(275)	–	–	(275)
Transfers from Investment property	–	–	–	–
Less: disposals during the year	–	–	(27)	(27)
Balance at 31 March 2019	**5,820**	**17**	**331**	**6,168**
Accumulated depreciation				
Balance at 1 April 2018	–	17	313	330
Charged during the year	–	–	45	45
Less: disposals during the year	–	–	(27)	(27)
Balance at 31 March 2019	**–**	**17**	**331**	**348**
Net Book Value				
31 March 2019	**5,820**	**–**	**–**	**5,820**

Notes to the accounts (continued)

14. Financial assets

	Capital Financial Assets				Other financial assets	Total
	Fixed interest £'000	Equities £'000	Private equity £'000	Total Capital Financial Assets £'000	Fixed income unit trust £'000	£'000
Value at 31 March 2017	**15,862**	**45,317**	**5,138**	**66,317**	**4,142**	**70,459**
Purchases	1,286	16,585	–	17,871	–	17,871
Sale proceeds	(2,220)	(15,651)	(1,512)	(19,383)	(523)	(19,906)
Gain/(loss) on sale	139	(36)	442	545	46	591
Change in fair value	(1,403)	(2,052)	(247)	(3,702)	(45)	(3,747)
Value at 31 March 2018	**13,664**	**44,163**	**3,821**	**61,648**	**3,620**	**65,268**
Purchases	377	6,113	–	6,490	100	6,590
Sale proceeds	(337)	(2,653)	(868)	(3,858)	(1,474)	(5,332)
Gain/(loss) on sale	9	(105)	503	407	147	554
Change in fair value	(122)	3,613	(485)	3,006	(84)	2,922
Value at 31 March 2019	**13,591**	**51,131**	**2,971**	**67,693**	**2,309**	**70,002**

Debt instruments classified as FVTOCI
The corporate bonds held by the Duchy were reclassified from available for sale to FVTOCI as the Duchy's business model is achieved both by collecting contractual cash flows and selling of these assets. The contractual cash flows of these investments are solely principal and interest. As a result, listed and unlisted bonds with a fair value of £13,664,000 were reclassified from available-for-sale financial assets to financial assets at FVTOCI and accumulated fair value gains were reclassified from the available-for-sale financial assets reserve to the FVTOCI reserve on 1 April 2018.

Fair value is determined in the manner described in Note 21. The corporate bonds are initially measured at fair value plus transaction costs. Subsequently, changes in the carrying amount of these corporate bonds as a result of foreign exchange gains and losses, impairment gain or losses and interest income calculated using the effective interest method are recognised in profit or loss. The amounts recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if these corporate bonds had been measured at amortised cost. All other changes in carrying amount of these corporate bonds are recognised in other comprehensive income. When these corporate bonds are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

Equity instruments designated as at FVTOCI
On initial recognition, the Duchy has made an irrevocable election to designate investments in equity instruments, previously classified as available-for-sale financial assets, as at FVTOCI because these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term. As a result, assets with a fair value of £47,984,000 were reclassified from available-for-sale financial assets to financial assets at FVTOCI and accumulated fair value losses were reclassified from the available-for-sale financial assets reserve to the FVTOCI reserve on 1 April 2018.

Notes to the accounts (continued)

14. Financial assets (continued)

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised on other comprehensive income. The cumulative gain or loss is not reclassified to profit or loss on disposal of the equity investments, instead it is transferred to retained earnings. Dividends on these investments in equity are recognised in profit or loss in accordance with IFRS 9. Dividends are included in the 'financial income' line (note 5) in profit or loss.

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).

Investment management fees of £300,000 were charged in the year (2018: £289,000). These fees are charged to the capital of the investment funds.

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 2017	–	961	–	–	961
Purchases at cost	–	17	–	–	17
Transfers to investment property	–	–	–	–	–
Transfers from investment property	–	–	350	–	350
Disposals	–	–	–	–	–
Impairment	–	(17)	–	–	(17)
Value at 31 March 2018	**–**	**961**	**350**	**–**	**1,311**

	Commercial and indirect property investment £'000	Agricultural woods minerals foreshores £'000	Residential £'000	Land held for development £'000	Total £'000
Value at 1 April 2018	–	961	350	–	1,311
Purchases at cost	–	–	–	–	–
Transfers to investment property	–	(40)	–	–	(40)
Transfers from investment property	–	–	–	–	–
Disposals	–	(921)	(350)	–	(1,271)
Impairment	–	–	–	–	–
Value at 31 March 2019	**–**	**–**	**–**	**–**	**–**

Notes to the accounts (continued)

16. Trade and other receivables

	2019 **£'000**	2018 £'000
Trade receivables (rents)	**1,319**	1,017
Other receivables	**642**	719
Prepayments and accrued income	**1,493**	1,675
	3,454	3,411

As of 31 March 2019 trade receivables of £1,319,000 (2018: £1,017,000) were due but not impaired.

The ageing analysis of these trade receivables is as follows:

	2019 **£'000**	2018 £'000
Under 3 months	**1,253**	890
3 to 12 months	**58**	53
Over 12 months	**8**	74

The ageing of impaired receivables is as follows:

	2019 **£'000**	2018 £'000
Under 3 months	**152**	268
3 to 12 months	**81**	88
Over 12 months	**92**	69

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:

	2019 **£'000**	2018 £'000
At 1 April	**425**	329
Provision for receivables impairment	**(61)**	107
Receivables written off	**(39)**	(11)
At 31 March	**325**	425

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.

The Duchy measures the loss allowance for trade receivables at an amount equal to lifetime expected credit loss. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtors current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

The Duchy writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery for example, when the debtor has been placed under liquidation or has entered into bankruptcy proceedings. None of the trade receivables that have been written off are subject to enforcement activities.

Notes to the accounts (continued)

17. Trade and other payables

	2019	2018
	£'000	£'000
Amounts falling due within one year:		
Trade payables	**1,637**	1,500
Other taxes and social security	**866**	957
Other payables	**2,428**	3,038
Late claims provision	**1,000**	1,000
Borrowings	**7,500**	–
Accruals and deferred income	**6,763**	6,446
Due to the Privy Purse	**3,230**	2,533
Due to Duchy of Lancaster charitable funds	**4,414**	5,041
	27,838	20,515

Movements in other payables include the following:

	2019	2018
	£'000	£'000
Dilapidations provision at 1 April	–	3,038
Gain on dilapidations provision	–	(3,038)
Dilapidations provision at 31 March	–	–

18. Borrowings

	Less than 1 year £'000	**1 to 5 years £'000**	**Over 5 years £'000**	**2018 Total £'000**
Borrowings	–	46,000	51,000	**97,000**
Interest rate swaps	–	507	(29)	**478**

	Less than 1 year £'000	**1 to 5 years £'000**	**Over 5 years £'000**	**2019 Total £'000**
Borrowings	7,500	20,000	74,500	**102,000**
Interest rate swaps	–	–	1,719	**1,719**

The total borrowings of £102m consists of 5 loans with the following terms; Loan of £7.5m repayable February 2020, interest in the year is at a floating rate. Loan of £20m repayable October 2021, interest in the year is at a floating rate. 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 3.000%. Loan of £37m 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%. Loan of £32.5m repayable November 2028, interest in the year is at a floating rate, all of the loan has been swapped to a fixed rate of 2.975%. In the year the Duchy increased its borrowing by £5m.

Interest rate swaps

Under interest rate swap contracts, the Duchy agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Duchy to mitigate the risk of changing interest rates on the fair value of issued fixed rate debt held and the cash flow exposures on the issued variable rate debt held. The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using the curves at the reporting date and the credit risk inherent in the contract, and is disclosed below. The average interest rate is based on the outstanding balances at the end of the financial year.

Notes to the accounts (continued)

18. Borrowings (continued)

As the critical terms of the interest rate swap contracts and their corresponding hedged items are the same, the Group performed a qualitative assessment of effectiveness and it is expected that the value of the interest rate swap contracts and the value of the corresponding hedged items will systematically change in opposite directions in response to movements in the underlying interest rates. The main source of hedge ineffectiveness in these hedge relationships is the effect of the counterparty and the Duchy's own credit risks on the fair value of the interest rate swap contracts, which is not reflected in the fair value of the hedged items attributable to the change in interest rates. No other sources of ineffectiveness emerged from these hedged relationships.

The following table details various information regarding interest rate swap contracts outstanding at the end of the reporting period and their related hedged items.

Cash flow hedges

	Average contracted fixed interest rate		Notional principal value		Carrying amount of the hedging instrument assets/ (liabilities)		Change in fair value used for calculating hedge ineffectiveness	
	2019 %	2018 %	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Less than 1 year	–	–	–	–	–	–	–	–
1 to 2 years	–	1.4	–	2,500	–	(20)	20	(20)
2 to 5 years	–	2.0	–	16,000	–	(487)	487	553
5 years +	1.4	1.5	53,500	30,000	(1,719)	29	(1,748)	928

The interest rate swaps settle on a quarterly basis. The floating rate on the interest swaps is 3-month LIBOR. The Duchy will settle the difference between the fixed and floating interest rate on a net basis.

All interest rate swaps contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated as cash flow hedges to reduce the Duchy's cash flow exposure resulting from variable interest rates on borrowings. The interest rate swaps and the interest payments on the loan occur simultaneously and the amount accumulated in equity is reclassified to profit or loss over the period that the floating rate interest payments on debt affect profit or loss.

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:

	2019 £'000	2018 £'000
Provisions for late claims received from the bona vacantia account	100	41
Increase in value of investments	**63**	1
Claims paid during the year	**(898)**	(1,140)
Deficit for the year	**(735)**	(1,098)
Late Claims Fund balance at 1 April	**3,044**	4,142
Late Claims Fund balance at 31 March	**2,309**	3,044

	2019 £'000	2018 £'000
Shown as:		
Included in Trade and other payables	**1,000**	1,000
Included in Non-current liabilities – provisions	**1,309**	2,044

Notes to the accounts (continued)

20. Retirement benefit obligations

The major assumptions used by the actuary were (in nominal terms) as follows:

	31 March 2019 % pa	31 March 2018 % pa
Discount rate	**2.3**	2.5
Inflation assumption (RPI)	**3.2**	3.0
Inflation assumption (CPI)	**2.2**	2.0
Rate of increase in pensions in payment	**2.2**	2.0
Rate of increase in pensionable salaries	**4.7**	4.5

Assumed life expectancies on retirement at age 60 are:

	31 March 2019	31 March 2018
Retiring today – males	27.6	26.5
Retiring today – females	29.5	28.6
Retiring in 20 years times – males	29.0	28.1
Retiring in 20 years times – females	31.0	30.2

The assets in the Scheme were:

	Value at 31 March 2019 £'000	Value at 31 March 2018 £'000
Gilts	**5,956**	5,612
Equities	**3,863**	3,828
Cash	**53**	19
Fair value of Scheme assets	**9,872**	9,459

The actual return on assets over the period was:

	31 March 2019 £'000	31 March 2018 £'000
Actual return on assets over the period	**583**	66

	2019 £'000	2018 £'000
Present value of funded obligations	**(9,743)**	(9,199)
Fair value of Scheme assets	**9,872**	9,459
Surplus in funded scheme	**129**	260
Present value of unfunded obligations	**–**	–
Unrecognised actuarial gains/(losses)	**–**	–
Adjustment in respect of asset ceiling and minimum funding requirement	**–**	–
Net liability in balance sheet	**(129)**	(260)

Notes to the accounts (continued)

20. Retirement benefit obligations (continued)

Reconciliation of opening and closing balances of the present value of the defined benefit obligation

	2019 £'000	2018 £'000
Benefit obligation at beginning of year	**9,199**	9,714
Current service cost	**61**	68
Interest cost	**224**	237
Contributions by Scheme participants	**2**	2
Net remeasurement loss/(gain) – financial	**429**	(107)
Net remeasurement loss/(gain) – demographic	**231**	(61)
Net remeasurement loss/(gain) – experience	**74**	(141)
Benefits paid	**(506)**	(513)
Past service cost	**29**	–
Benefit obligation at end of year	**9,743**	9,199

Reconciliation of opening and closing balances of the fair value of Scheme assets

	2019 £'000	2018 £'000
Fair value of Scheme assets at beginning of year	**9,459**	9,569
Interest income on Scheme assets	**234**	237
Return on assets, excluding interest income	**349**	(171)
Contributions by employer	**355**	378
Contributions by Scheme participants	**2**	2
Benefits paid	**(506)**	(513)
Scheme administrative costs	**(21)**	(43)
Fair value of Scheme assets at end of year	**9,872**	9,459

Reconciliation of the effect of the asset ceiling

	2019 £'000	2018 £'000
Effect of the asset ceiling at beginning of year	**–**	–
Interest income on the asset ceiling	**–**	–
Changes in the effect of the asset ceiling excluding interest income	**–**	–
Effect of the asset ceiling at end of year	**–**	–

The amounts recognised in profit and loss:

	2019 £'000	2018 £'000
Service cost – including current and past service costs and settlements	**90**	68
Service cost – administrative cost	**21**	43
Net interest on the net defined benefit liability	**(10)**	–
Total expense	**101**	111

Notes to the accounts (continued)

20. Retirement benefit obligations (continued)

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

	2019 £'000	2018 £'000
Net remeasurement loss/(gain) – financial	**429**	(107)
Net remeasurement loss/(gain) – demographic	**231**	(61)
Net remeasurement loss/(gain) – experience	**74**	(141)
Return on assets, excluding interest income	**(349)**	171
Changes in the effect of the asset ceiling excluding interest income	**–**	–
Total remeasurement of net defined benefit liability/(asset)to be shown in OCI	**385**	(138)

Sensitivity analysis

	Impact on Scheme liabilities 2019	2018
Discount rate – decrease by 1.0% pa	+14%	+13%
Rate of inflation rate (CPI) – increase by 0.2% pa	+2%	+2%
Mortality (increase life expectancy by 1 year)	+5%	+5%

Extrapolation of the sensitivity analysis beyond the ranges shown may not be appropriate.

Characteristics and risks associated with the Scheme

(a) Information about the characteristics of the Scheme

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.

The Scheme is a registered scheme under UK legislation and is subject to the scheme funding requirements.

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 Scheme exposes the Duchy to actuarial risks such as; market (investment) risk, interest rate risk, inflation risk, currency risk and longevity risk.

The Scheme does not expose the Duchy to any unusual Scheme-specific or Duchy-specific risks.

(c) Information about the valuation of the defined benefit obligation at the accounting date

The most recent formal actuarial valuation of the Scheme was at 31 March 2018.

The liability model used for our calculations is the same as that used for the 2018 valuation, using the proposed IAS 19 assumptions and membership data updated to 31 March 2019.

Notes to the accounts (continued)

20. Retirement benefit obligations (continued)

(d) Information about the most recent actuarial valuation and expected future cashflows to and from the Scheme

The valuation as at 31 March 2018 revealed a funding deficit of £1.3m. In the Recovery Plan dated 20 November 2018 the Duchy has agreed to pay contributions with the view to eliminating the shortfall by 31 March 2023.

The Duchy also pays contributions of £64,000pa to meet the cost of future accrual of benefits for active members of the Scheme and insurance premiums for death in service lump sums, in line with the schedule of contributions dated 20 November 2018.

In accordance with the Schedule of Contributions dated 20 November 2018 the Duchy is expected to pay contributions of around £272,000 over the next accounting period. The contributions paid by the Duchy are reviewed every 3 years as part of each formal actuarial valuation. The Scheme's next actuarial valuation is due at 31 March 2021.

In addition, the Duchy is expected to meet the cost of administrative expenses for the Scheme.

The liabilities of the Scheme are based on the current value of expected benefit payment cashflows to members over approximately the next 60 years. The average duration of the liabilities is approximately 12 years.

(e) The Scheme's investment strategy

The Scheme's investment strategy is to invest broadly 40% in return seeking assets (UK equities) and 60% in matching assets (index-linked gilts). This strategy is overweight in return seeking asssets when compared to the Scheme's liability profile but is consistent with the Trustees' and the Duchy's attitude to risk.

The Scheme does not hold any ordinary shares issued or property occupied by the Duchy.

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 2018.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets				
Debt instruments at fair value through other comprehensive income (FVTOCI)	13,664	–	–	13,664
Investments in equity instruments designated at FVTOCI	47,984	3,620	–	51,604
Total recurring financial assets	61,648	3,620	–	65,268
Financial liabilities				
Interest rate swaps	–	478	–	478
Total recurring financial liabilities	–	478	–	478
Non-financial assets:				
Investment properties	–	–	564,734	564,734
Owner occupied properties	–	–	6,095	6,095
Total recurring non-financial assets	–	–	570,829	570,829
Non-recurring fair value measurements				
Property held for sale	–	–	1,311	1,311
Total non-recurring assets	–	–	1,311	1,311

Notes to the accounts (continued)

21. Fair value measurements (continued)

The following table sets out the Duchy's assets and liabilities that are measured and recognised at fair value at 31 March 2019.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets				
Debt instruments at fair value through other comprehensive income (FVTOCI)	13,591	–	–	13,591
Investments in equity instruments designated at FVTOCI	54,102	2,309	–	56,411
Total recurring financial assets	67,693	2,309	–	70,002
Financial liabilities				
Interest rate swaps	–	1,719	–	1,719
Total recurring financial liabilities	–	1,719	–	1,719
Non-financial assets:				
Investment properties	–	–	580,097	580,097
Owner occupied properties	–	–	5,820	5,820
Total recurring non-financial assets	–	–	585,917	585,917
Non-recurring fair value measurements				
Property held for sale	–	–	–	–
Total non-recurring assets	–	–	–	–

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	–	12,526	(275)	12,251

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 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. The methodologies applied by the valuers include the following:		
Investment Method: 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: 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. Cash flow notes

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

	2019 **£'000**	2018 £'000
Net surplus on Revenue account	**21,724**	20,184
Net surplus on Capital account	**13,413**	17,062
Adjusted for:		
Depreciation	**45**	22
Current service costs less contributions to pension scheme	**(254)**	(267)
Net finance income	**(289)**	(665)
Decrease in valuation of other financial investments	**84**	45
Net gain from fair value adjustment on investment property	**(12,526)**	(12,223)
Gain on disposal of investment property	**(1,785)**	(229)
Loss on disposal of property held for sale	**274**	–
Net gain on the disposal of financial assets	**(407)**	(545)
Net gain on the disposal of other financial assets	**(147)**	(46)
Increase in receivables	**(43)**	(751)
Decrease in payables	**(1,609)**	(2,431)
Net cash inflow from operating activities	**18,480**	20,156

Notes to the accounts (continued)

22. Cash flow notes (continued)

Analysis of changes in net debt

Net debt consists of loans and other borrowings (both current and non-current), less current assets investments and cash and cash equivalents. Loans and other borrowings are measured at the net proceeds raised. For the purpose of this measure, current asset investments and cash and cash equivalents are measured at the lower of cost and net realisable value.

Net debt is considered to be an alternative performance measure as it is not defined in IFRS. The most directly comparable IFRS measure is the aggregate of loan and other borrowings (current and non-current), current asset investments and cash and cash equivalents.

A reconciliation from the most directly comparable IFRS measure to net debt is given below:

	1 April 2018 £'000	Cash flow £'000	Acquisitions and disposals £'000	Fair value gains and losses £'000	Interest charge £'000	31 March 2019 £'000
Cash and bank balances	12,788	1,678	–	–	–	14,466
Interest rate swaps	(478)	–	–	(1,241)	–	(1,719)
Borrowings	(97,000)	(5,000)	–	–	–	(102,000)
	(84,690)	**(3,322)**	**–**	**(1,241)**	**–**	**(89,253)**

Balances at 31 March 2019 comprise:

	Non-current assets £'000	Current assets £'000	Current liabilities £'000	Non-current liabilities £'000	Total £'000
Cash and bank balances	–	14,466	–	–	14,466
Interest rate swaps	–	–	–	(1,719)	(1,719)
Borrowings	–	–	(7,500)	(94,500)	(102,000)
	–	**14,466**	**(7,500)**	**(96,219)**	**(89,253)**

23. Related party transactions

A charitable donation of £1,000,000 (2018: £250,000) was made to the Duke of Lancaster Housing Trust arising from the surplus receipts of bona vacantia. The Chief Executive acts as a trustee of the Duke of Lancaster Housing Trust.

A charitable donation of £200,000 (2018: £nil) was made to the Duchy of Lancaster Benevolent Fund arising from the surplus receipts of bona vacantia. The Receiver General, the Attorney General and the Chief Finance Officer of the Duchy of Lancaster together with the Vice Chancellor of the County Palatine act as trustees of the Duchy of Lancaster Benevolent Fund.

Notes to the accounts (continued)

24. Financial risk management

A review of the Duchy's financial risks is set out in the Strategic Report on pages 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 performs sensitivity analyses on its covenants looking at all asets and also just liquid assets. This provides reassurance of the levels of market or tenant deterioration that would result in a potential covenant breach.

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 has swapped 52.5% of its loans as detailed in note 18. The spread of a +/–1% interest rate movement would equate to £485,000.

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

Liquidity risk

Although current liabilities are in excess of current assets, the majority of the Duchy's financial liabilities all fall due within one year and notes 17-20 provide further details of these liabilities. Liquidity risk is minimised by holding over £61m 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 2019 the Duchy had entered into contracts for major improvements works predominantly in respect of the refurbishment of 105-109 Strand that gave rise to a capital commitment of £18,689,000 (2018: £4,630,000).

Duchy of Lancaster Rural Surveys

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

	Hectares
The Staffordshire Survey	**2,970**
Needwood estate	
The Cheshire Survey	**1,402**
Crewe estate	
Marbury estate	
The Lancashire Survey	**3,833**
Whitewell estate	
Myerscough estate	
Wyreside estate	
Salwick estate	
The Yorkshire Survey	**6,608**
Cloughton estate	
Pickering estate	
Marishes estate	
Goathland estate	
Pontefract estate	
The Southern Survey	**3,668**
Higham Ferrers estate	
Castleton estate	
Ogmore estate	
Lincolnshire estate	
	18,481

Accounts of the Solicitor for the Affairs of the Duchy of Lancaster for the year ended 30 September 2018

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 158 intestate estates (2017: 215) and 1,753 dissolved companies (2017: 2,408) were formally reported.

Income and expenditure account for the year ended 30 September 2018

	2018 £
Income	
Monies received from dissolved companies	5,350,207
Monies received from intestate estates	1,785,559
Interest and other	16,677
Monies received	7,152,443
Expenditure	
Payments to next of kin	(930,121)
Company restoration	(1,361,396)
Ex-gratia payments to claimants	(64,545)
Administration costs	(765,691)
Net income less expenditure	4,030,690
Paid to the Duchy of Lancaster	(6,618,047)
Net income for the year ended 30 September 2018	(2,587,357)
Cash balances at 1 October 2017	8,501,347
Net income for the year ended 30 September 2018	(2,587,357)
Cash balances at 30 September 2018	5,913,990

Balance sheet as at 30 September 2018

	2018 £
Current assets	
Cash and deposits	5,913,990
	5,913,990
Current liabilities	
The Duchy of Lancaster	(1,528,818)
Other creditors	–
	(1,528,818)
Total assets less current liabilities	4,385,172
Representing:	
Estates under administration	4,385,172

Accounts direction given by HM Treasury

Operating Review

1. The Duchy of Lancaster shall prepare accounts for the financial year ended 31 March 2019 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 June 2018. It shall be reproduced as an appendix to the accounts.

David Fairbrother
Treasury Officer of Accounts — June 2019

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 salary and allowances 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. In addition, performance payments in the year should be separately reported from salaries in bands of £5,000.

11. A formal valuation of the pension scheme was undertaken in 2018 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 2021.

DUCHY *of* LANCASTER

Annual Report

Report and accounts of the Duchy of Lancaster for the year ended 31 March 2019

www.duchyoflancaster.co.uk

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