Duchy of Lancaster



Report and Accounts

Year ended 31st March 2021

Preserving the past, investing for the future

Stall plate of The Prince Philip Duke of Edinburgh KG KT OM GCVO GBE in The Queen's Chapel of the Savoy

Duchy of Lancaster

Annual Report

Report and accounts of the Duchy of Lancaster for the year ended 31 March 2021

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 modern times, growth and diversification have been delivered through active asset management.

Today, the estate covers 18,248 hectares of rural land divided into five Surveys: Cheshire, Lancashire, Southern, Staffordshire 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.

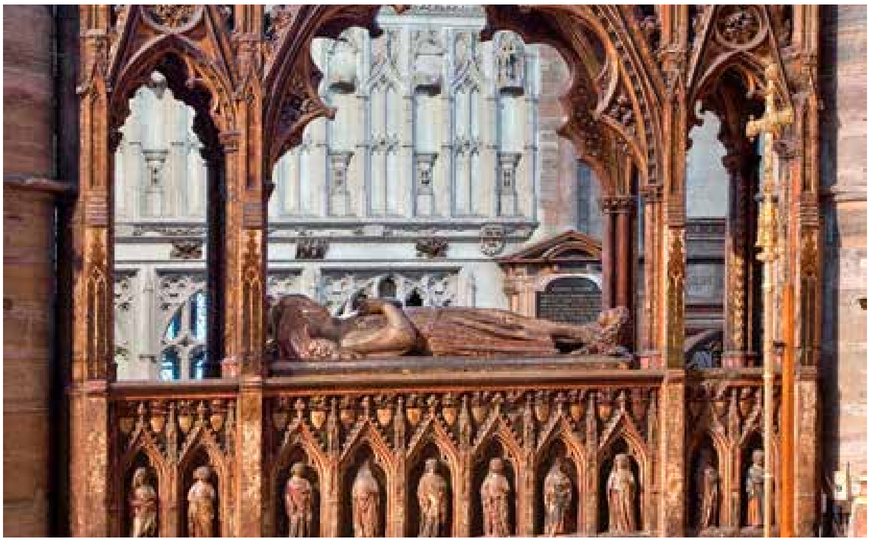
History

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 for rebellion by King Edward II in 1322. Thomas' lands and titles were forfeited but eventually passed to his brother

Her Majesty The Queen, Duke of Lancaster.



Edmund Crouchback, Earl of Lancaster 1245-1296
© The Dean and Chapter of Westminster.

Introduction *continued*

Stone carved likeness of John O'Gaunt, Lancaster Castle.

Charter of Henry III to Edmund, 1267.

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

Edward III also raised Lancaster to the status of 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.

However, after the War of the Roses, 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 portfolio, its assets also include 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 both the custodian of an historic landed estate and a professional organisation which must observe the rigour and disciplines of a contemporary asset management company. Its role is to preserve and enhance the value of the ancient inheritance while protecting the lives and livelihoods of its tenants and ensuring the long-term sustainability of the natural environment.

As a major owner of agricultural land and areas of outstanding natural beauty across England and Wales, the Duchy has a responsibility to safeguard this natural capital for future generations. Our partnership with our agricultural tenants therefore 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.

Areas of focus over the last year have included developing a greater understanding of the biodiversity across our holdings, sharing best practice around responsible soil management and improving the quality and scope of our woodland. We will continue to encourage 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.

Our business strategy is to continue to deliver sustainable revenue growth while working with our tenants and their communities to provide appropriate help and support wherever practicable.

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

Our business strategy is continually reviewed and updated in response to market changes to ensure that the business remains appropriately focused and balanced.

The Duchy of Lancaster office, Savoy Estate, London.

Lancaster Castle's imposing John O'Gaunt gate.

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 Surveys

There are five Rural Surveys within the Duchy: Cheshire, Lancashire, Southern, Staffordshire and Yorkshire. The Southern Survey combines the Duchy's Lincolnshire assets with those in Derbyshire, Northamptonshire and South Wales.

All five Surveys are managed in house by a multi-disciplinary team of rural surveyors, estate managers and rural accountants based in our London and Lancaster offices.

• Cheshire

The Cheshire Survey extends to 1,550 hectares and is made up of the Crewe estate to the south of the county and 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 1,516 hectares, stretching from the edge of the town to the M6 at Junction 16.

Mill Farmhouse, Crewe Estate, Cheshire.

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 a number of companies in flexible office suites of varying sizes surrounded by views of the open countryside.

The estate also includes a residential lettings portfolio of 65 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 livestock farm and four residential properties let to local people.

• Lancashire

The Lancashire Survey extends to 3,943 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 578-hectare estate, including three which form part of the renowned agricultural training centre at Myerscough College. Five residential properties and 21 commercial and miscellaneous lettings are also part of the estate.

Dinkling Green, Whitewell Estate, Lancashire

The 477-hectare Salwick estate is predominantly farmland but includes around 15 hectares of woodland, as well as three residential properties and six commercial lettings. There are four equipped agricultural holdings on the estate, including dairy farms.

At 2,578 hectares, Whitewell is the largest estate in the Survey. It lies within the Area of Outstanding Natural Beauty of 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 310 hectares, including one main agricultural holding and four residential properties. There are also 39 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 Lincolnshire, Derbyshire, Northamptonshire and South Wales. It extends to a total of 3,658 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 1,050 hectares and supported the Duchy's strategy of investing in root crop farming and high quality arable farmland. The merger of two contiguous land holdings in 2016/17 created a new signature farm for the Lincolnshire estate.

Foreshore

The Duchy of Lancaster's ancient foreshore runs from the River Mersey in the south, to Barrow-in-Furness in the north and consists predominantly of the land between High Tide and Lowest Astronomical Tide. It includes around 100 lettings for a variety of uses, from sheep farming to renewable energy infrastructure and bridges.

The Surveys *continued*

Castles and Historic Properties

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 Savoy Chapel are managed directly by the Duchy.

At Castleton in the Derbyshire Peak District, the Duchy owns 124 hectares of grazing land which is open to public access as well as Peveril Castle, the Peak Cavern tourist attraction and historic mineral rights.

The Northamptonshire estates are centred on the 13th century inheritance of Higham Ferrers and Wollaston, with a total land holding of 811 hectares, consisting mainly of arable farms. They also include the historic Chichele College, 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 which include further castles at Bolingbroke and Tickhill.

- Staffordshire

The Staffordshire Survey comprises the 2,976-hectare Needwood Estate. Historically a large area of ancient woodland with extensive stocks of wolf, wild boar and fallow deer, today the Needwood estate comprises a mix of 45 arable, dairy, sheep and beef farms, 49 residential properties and 58 commercial, sporting and miscellaneous lettings. The commercial interests across the estate are diverse and range from specialist equestrian centres and liveries to sporting 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 Company. In 2018 the Needwood woodlands were granted a Grown in Britain Forest licence.

Pound Farmhouse, Needwood Estate, Staffordshire.

- Yorkshire

The Yorkshire Survey covers 6,121 hectares across four main estates: Cloughton, Goathland, Pickering and Pontefract.

Cloughton is made up of 974 hectares of arable and pasture land as well as 30 residential tenanted properties. The creation of a sustainable new model farm at Fields Farm in 2015 relocated the agricultural operation into the open countryside and facilitated the development of new and affordable family homes in the heart of the village. There are nine commercial lettings on the estate including two pubs and two café / bistros as well as 15 holiday cottages at Scalby Lodge which are managed in hand.

The 3,869-hectare Goathland estate includes a large area of heather moorland, much of which is a Site of Special Scientific Interest (SSSI). Upland grazing and moorland form the majority of the let interests on the estate.

The Pickering estate is home to a mix of arable and livestock farming. The 988-hectare estate also includes 283 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 includes land and buildings on the Strand in Central London and around the Stray in Harrogate as well as a portfolio of industrial/warehouse investments in London, South East, Midlands and the North West.

The Savoy estate in London is the single largest asset block in the Urban portfolio, comprising 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. It is also likely to benefit from the current proposals by Westminster City Council for the creation of a pedestrianised plaza on Aldwych. The estate includes The Queen's Chapel of the Savoy.

Holiday Cottages

The Duchy owns 16 luxury holiday cottages, the majority of which are at Scalby Lodge near Scarborough. The cottages have received 4- or 5-star ratings from national tourist and holiday organisations.

North York Moors Railway travelling through Pickering Woods , Yorkshire

The Surveys *continued*

Views of the River Thames from the historic Savoy estate.

Cycling and storage facilities, 9 Savoy Street, London.

Open terrace with river views, Savoy Estate, London.

New teamworking/break out space.

The portfolio includes a significant number of industrial/warehouse properties with the core holdings in established locations such as Tower Bridge Business Park 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 also managed in house and in 2019 the team began work on a major refurbishment project on the Strand. Despite the restrictions introduced on construction sites across the UK over the last 12 months, this project continues to make steady progress. This year has also seen the Duchy complete its first venture into fully fitted out space which was pre-let prior to completion.

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 a number of strategic sites in Cheshire, Northamptonshire and Yorkshire.

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 environment.

In all of its development proposals, the Duchy is committed to ensuring the highest standards of design and specification, including innovations to improve energy efficiency and running costs, wherever possible. Our aim is to deliver practical and sustainable solutions in consultation with the local community.

Financial Portfolio

As part of its strategic asset allocation policy, the Duchy 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.

Highlights of 2020-21

Protecting Natural Capital

Encouraging natural pollinators.

Sustainability and the natural environment are areas of increasing focus for the Duchy. We are developing estate-level environmental and sustainability plans in which objectives are set across each enterprise. Our desire to support regenerative agriculture remains strong and includes initiatives to encourage soil health and fertility. We have introduced capital support to tackle issues such as soil compaction and will continue to support and encourage minimum tillage and direct drilling practices.

At a farm level, we continue to encourage our tenants to enter into environmental stewardship schemes and will be working with them in the transition to Environmental Land Management Schemes in the years ahead. We actively support the use of flower and seed-rich mixes in field margins and borders in order to preserve and enhance biodiversity across the holdings. An increasing number of our farmers are introducing environmentally friendly practices into their day-to-day operations and are also starting to focus on strategies relating to responsible water management and carbon capture.

Responsible water management.

New planting at Needwood.

Bespoke woodland management plans are now in place for the Crewe, Needwood, Pickering and Whitewell estates with targeted objectives on sustainable woodland management. This includes strategies to mitigate issues of disease and woodland creation over the next 20 years. We aim to create further woodland across the Surveys. The planting of 24 acres of new sustainable woodland at Needwood as well as 300 new avenue/hedgerow trees is underway. 19.5 km of woodland rides have been created to contribute to better amenity and access and to provide space and light to encourage greater biodiversity.

The field-by-field audit compiled in partnership with the Game and Wildlife Conservation Trust (GWCT) and Natural England in 2019 has provided and encouraged greater awareness and protection of the biodiversity across our estates. A new project will be completed this year which identifies existing habitats and environmental designations across our foreshore, with an assessment of their condition.

Floristically enhanced borders.

Bespoke action plans are being developed in partnership with our tenants and stakeholders to help us identify achievable targets which will protect and enhance the natural capital and biodiversity of all Duchy holdings for future generations.

Sustainable Farming in Staffordshire

A growing number of Duchy tenants on the Duchy's Staffordshire Survey are implementing measures to enhance the environmental value of their holdings and encourage the return of pollinators and indigenous wildlife found in hedgerows, ponds and field margins.

Several farmers have moved to wild bird seed and pollen and nectar mixtures for their field boundaries and added floristically enhanced grass margins beside water courses. They have also

Highlights of 2020-21 *continued*

Restoring redundant ponds.

embraced sustainable hedgerow management to provide feeding sources for farmland birds and restored redundant ponds, creating reed beds to attract birds, insects and native wildlife.

Arable farming accounts for around 50 per cent of the Duchy's Staffordshire Survey. These farms generally operate on a rotation of wheat, barley and beans. A number of farmers have considered or have already purchased direct drilling equipment to improve the long-term health and productivity of the soil. Catch and cover crops are being grown whenever the conditions allow.

Wilding of field corners.

Similar environmentally friendly initiatives have been undertaken by our cattle and dairy farmers in Staffordshire. Proactive hedge management, the wilding of field corners and minimum fertiliser inputs on ridge and furrow land have also been successfully introduced across the Staffordshire Survey in the last 12 months.

Revitalising Old Buildings

The Duchy is looking to incorporate a greater focus on energy efficiency, carbon footprint and renewable energy technologies in its residential refurbishments and small-scale developments. As part of this drive, we are reviewing and updating the Duchy design guide to create a quality specification that reduces our carbon footprint, ensures that products are locally and sustainably sourced and encourages the use of traditional materials and craftspeople.

Gleaves Hill Barn, Wyreside.

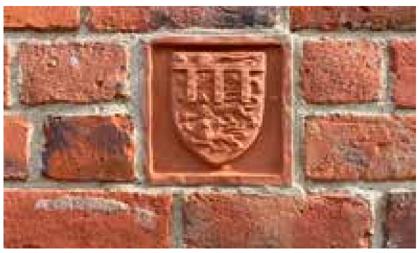
The redevelopment of Gleaves Hill Barn on the Wyreside estate in Lancashire is a prime example of this approach and a refurbishment which has gained an excellent energy efficiency rating. The disused barn was redeveloped as two residential dwellings. The reconstruction brought the 19th century building back to life using traditional materials and retaining as many of the original architectural features as possible. State-of-the-art efficiency measures were then installed, including a ground source heating system and a smart Wi-Fi-enabled thermostat to optimize internal

Open plan living space.

temperatures and conserve energy. Electric charging points have also been installed to encourage the use of sustainable transport options.

Kitchens in the new units have been made from sustainable renewable wood sources and local Lancashire slates have been installed in a traditional graduated course on the roofs. Local craftsmen and contractors were employed to work on the project in support of the local economy and to minimise travel during the pandemic, thereby reducing carbon footprint.

The restored building now offers sustainable, energy-efficient accommodation for local families in the heart of the Lancashire countryside. The finished building also incorporates a new datestone and copy of the Duchy crest hand carved by Lancaster Castle's resident stone carver and sculptor.



Duchy crest and date stone.

Strategic Report

Covid-19

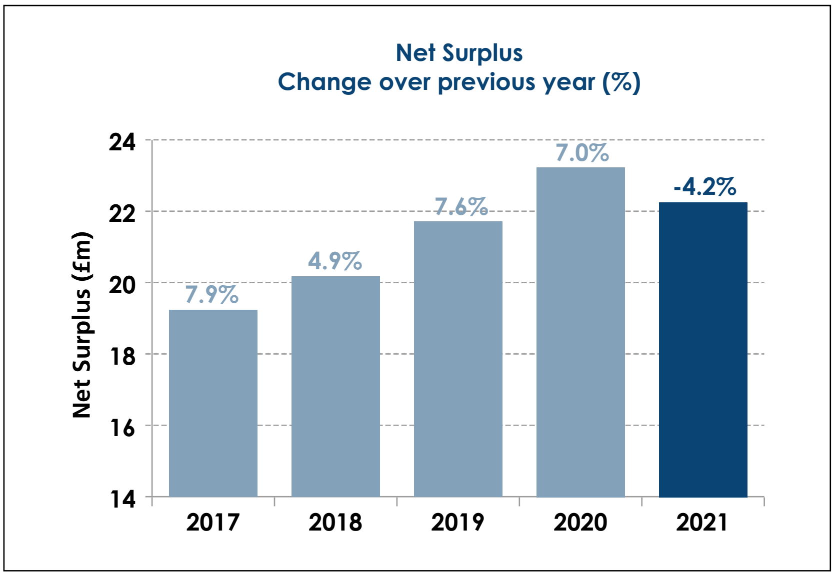
We have continued to work collaboratively with our tenants, suppliers and partners during the Covid-19 pandemic and its associated restrictions. Paying particular attention to the most vulnerable, we have offered advice and support, including financial assistance where appropriate, and we believe this partnership approach has been crucial in minimising the impact of the pandemic on our tenants and the Duchy's business. As we progress further into recovery during 2021, close monitoring of our tenants and provision of support will continue to be a key activity for the Duchy in order to mitigate risks.

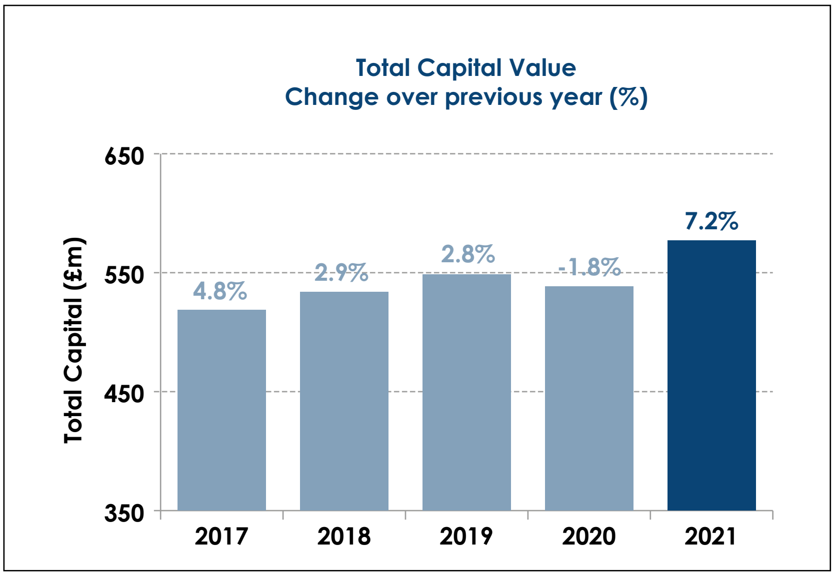
During this period we have reduced face-to-face contact to minimise the risk of infection arising from our activities. We have however remained operational throughout, while observing Government guidance at all times. We have not furloughed any of our employees nor sought any Government funding as a result of the Covid crisis.

Financial and Risk Review

- The Net Surplus has decreased in the year by 4.2% to £22.3m (2020: £23.2m).
- The Net Asset Value has increased by 7.2% to £577.3m (2020: £538.5m).

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





Strategic Report *continued*

Student stonemasons restoring the Duchy crest at Lancaster Place.

The reduction in the Net Surplus for the year should be viewed against the background of Covid-19 and the impact it has had on our occupiers, particularly in the retail and specialist segments but including some office occupiers. The provision of financial assistance where appropriate has enabled us to mitigate these impacts and we have so far experienced relatively few business failures and vacancy rates across our portfolio are lower than we anticipated at this time last year.

Our forecasts cautiously reflect a return to growth in the coming year, although we expect the economic backdrop will continue to present challenges for our tenants. The pace of recovery will vary by sector and businesses will need time to work with their supply chains and workforces to resume trading as normal.

The drive towards quality and sustainability continues. Our more focused and structured in-house approach to the management of our business has served us well and contributed significantly to the forging of closer relationships with our tenants during the crisis, reducing voids and increasing efficiency.

The value of our investment properties grew by £22.6m, 3.6% on a like for like basis after allowing for sales and capital expenditure. This growth reflects a largely positive market for rental values and yields in the sectors in which we operate as the Covid-19 recovery gets under way. Over the year, the Duchy spent an aggregate of £13.9m on permanent repairs and improvements to its land and property and received an aggregate of £10.8m from property sales and other capital receipts.

The value of the financial portfolio recovered the losses sustained in the uncertainties of early 2020, delivering a valuation surplus of £11.1m, up 20.7% on a like for like basis and recording a total return of 24.5% including investment income from the portfolio.

Recognising that the effects of Covid-19 will be felt for some time to come, we will continue to take proactive measures to ensure that the Duchy emerges from this crisis in as strong a position as possible. While continuing to focus on controlling operating costs, we are committed to doing so in a way that is sustainable and maintains quality. We will aim to preserve balance sheet capacity and flexibility to ensure that we can weather any prolonged negative impact of Covid-19 on the sectors in which we operate and to that end will continue to control capital expenditure carefully and adapt our approach as the longer-term effects of the pandemic become clearer.

Liquidity and the Financial Portfolio

The Duchy has gross borrowings of £137m and continues to benefit from historically low interest rates. The level of gearing is continually under review and Council has approved borrowings of up to

25% of net assets. All current debt is on fixed rates for the remaining duration of the loans.

The financial portfolio, as well as providing a significant income for the Duchy, remains a major source of liquidity to meet capital expenditure going forward. The majority of the management of the portfolio is in the hands of a single manager, Newton Investment Management Limited. Stanhope Capital act as the Duchy's investment consultant in order to maintain a proper degree of independent scrutiny of the financial portfolio and its management.

In addition to the financial portfolio the Duchy has recourse to additional sources of liquidity including the sale of non-core properties, other capital receipts e.g. from development of land, and additional borrowings and will deploy appropriate measures as required.

Principal risks and uncertainties

The Duchy seeks to ensure that risks are identified, quantified and managed appropriately. It maintains a comprehensive risk register which is 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 Council has also established two sub-committees as well as our advisory boards. These meet at least twice a year to focus on all business sectors and the geographic areas in which the Duchy operates.

The Audit and Risk Committee considers the specific impact of identified risks, how they are managed or mitigated and makes recommendations to the Council accordingly.

The principal risks faced by the Duchy are shown below.

Covid-19 risk

Like most businesses, the longer-term impact of Covid-19 on our tenants and their businesses remains a significant uncertainty for the Duchy to manage. We have been successful during the past year focusing our attention on priority areas such as employee and tenant communications, business operations and internal functions such as IT and finance. We will continue to support our staff, tenants, suppliers and partners with appropriate advice and support. The Council receives weekly updates on our Covid-19 actions and responses.

Strategic risk

Each year the Duchy writes a five-year business plan and prepares rolling forecasts for the year ahead. As part of this process, a review is undertaken of long-term trends to assess options to assure the ongoing viability of Duchy operations.

Property risk

The principal property risk is the loss of income. A full review of tenants and sectors is undertaken quarterly to ensure a well-diversified tenant

The Great Cowcher of the Duchy of Lancaster created in1402.

Strategic Report *continued*

Magna Carta held at The National Archives.

base and staggered lease expiries as well as to assess measures for improving covenant strength and diversification across the Duchy portfolios.

Development risk
The Duchy has established a robust evaluation process from close monitoring of 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 Council.

Interest rate risk
The Duchy has an approved debt policy and hedging strategy in place and interest rate risk has been eliminated on all of its variable rate borrowings by the use of interest rate swaps on all of its variable rate borrowings.

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 acutely aware that its corporate IT systems are at the core of operations and although secure, could potentially be exposed to criminal cyber-attacks. This risk is mitigated by advanced IT safeguards and constant monitoring.

Reputational risk
The Duchy gives ongoing consideration to 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 this system of controls is informed by comments made by the external auditors in their management letter and other reports.

Sir Alan Reid GCVO
Nathan Thompson CVO
London
7 July 2021

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 accounts 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 61-62. 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.

Ceiling quatrefoils, The Queen's Chapel of the Savoy.

Report of Council *continued*

The Whitewell Estate, Lancashire.

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. These relate to senior Duchy appointments and those 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 serving members of Council (who are designated as the Proper Officers) for the financial year to 31 March 2021 were:

- Sir Alan Reid GCVO (Chairman of the Council)
- Sir Michael Stevens KCVO (The Receiver General)
- Ms Sonia Tolaney QC (The Attorney General – appointed October 2020)*
- Mr Nathan Thompson CVO (Chief Executive and Clerk of the Council)
- Mr Christopher Adcock LVO (Chief Finance Officer)
- Miss Kathryn Matthews
- Mr Hugh Bullock
- Mr Marcus Rose
- The Marquess of Downshire
- *Mr Robert Miles QC, former Attorney General, resigned from the Council in May 2020.

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

Responsibilities of the Proper Officers

The Proper Officers are responsible for ensuring that proper accounting records are maintained with respect to the affairs of the Duchy and for preparing the Annual Report and Accounts in accordance with applicable law and International Financial Reporting Standards and for submitting the Report and Accounts annually to the Lords' Commissioners of the Treasury in an agreed form.

The Proper Officers are also responsible for safeguarding the Duchy's assets and for maintaining a satisfactory system of control over transactions affecting Duchy property in 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 UK Corporate Governance Code.

Sustainability Policy

The Duchy of Lancaster is committed to being environmentally responsible. Finding ways to protect the environment is at the core of everything we do. 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 executive team with overview by Council to ensure that they remain effective and appropriate to the activities of the Duchy.

Statement on corporate governance

The UK Corporate Governance Code issued by the Financial Reporting Council is widely acknowledged as representing best practice in governance.

1 Lancaster Place, Strand, London

Report of Council *continued*

Crown Court, Lancaster Castle.

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 reviewed annually by Council. The only sub-committees of Council are the Audit and Risk Committee and the Nominations and Remuneration Committee. The Duchy also operates with a number of advisory committees and an advisory board as detailed below.

Internal control and risk

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

- a rural, strategic land and finance committee, each chaired by a member of Council;
- an advisory board reporting to the CEO;
- a defined management structure with appropriate delegation of authority to operational management;
- the setting of detailed budgets and monthly reporting against them;
- the setting of specific targets to measure financial and other performance;
- 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 14-16.

Going Concern

The Duchy's financial projections show that it has considerable financial resources and is forecast to operate within its available cash and other sources of additional liquidity 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 UK Corporate Governance Code, the Council has reviewed cashflow and profit projections based on conservative assumptions for the next five years and consider that there is a reasonable expectation of being able to continue in operation and meet all liabilities as they fall due during that five-year period. A period of five years has been selected as the Duchy is able to control expenditure and has relatively predictable income streams.

Sir Alan Reid GCVO
Nathan Thompson CVO
London
7 July 2021

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

Opinion

We have audited the financial statements of the Duchy of Lancaster for the year ended 31 March 2021 which comprise the Revenue Accounts 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 significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards (IAS) 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 the Duchy's affairs as at 31 March 2021 and its surplus for the year then ended;
- have been properly prepared in accordance with IAS as applied to the Duchy of Lancaster by the Accounts Direction given by the Treasury dated June 2019; and
- have been prepared in accordance with 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 Duchy 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

In auditing the financial statements, we have concluded that the Proper Officers' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Duchy's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Proper Officers with respect to going concern are described in the relevant sections of this report.

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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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 has 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 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 if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Proper Officers' remuneration specified by law 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 set out on page 19, 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 unless the Proper Officers either intend to liquidate the Duchy or to cease operations, or have no realistic alternative but to do so.

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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The specific procedures for this engagement and the extent to which these are capable of detecting irregularities, including fraud are detailed below.

Identifying and assessing risks related to irregularities: We assessed the susceptibility of the Duchy's financial statements to material misstatement and how fraud might occur, including through discussions with the Proper Officers, discussions within our audit team planning meeting, updating our record of internal controls and ensuring these controls operated as intended. We evaluated possible incentives and opportunities for fraudulent manipulation of the financial statements. We identified laws and regulations that are of significance in the context of the Duchy by discussions with management and updating our understanding of the sectors in which the Duchy operates.

Laws and regulations of direct significance in the context of the Duchy include The Accounts Direction given by the Treasury dated June 2019.

In addition, the Duchy is subject to other laws and regulations that do not have a direct effect on the financial statements but where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements; through a significant fine, litigation or prosecution. These include significant laws and regulations applicable to landlords, such as the Landlord and Tenant Act 1985, Tenancy Deposit Scheme, and Health & Safety Laws.

Audit response to risks identified:
We considered the extent of compliance with these laws and regulations as part of our audit procedures on the related financial statement items including a review of financial statement disclosures. We reviewed the Duchy's records of breaches of laws and regulations, minutes of meetings and correspondence with relevant authorities to identify potential material misstatements arising. We discussed the Duchy's policies and procedures for compliance with laws and regulations with members of management responsible for compliance.

During the planning meeting with the audit team, the engagement partner drew attention to the key areas which might involve non-compliance with laws and regulations or fraud. We enquired of management whether they were aware of any instances of non-compliance with laws and regulations or knowledge of any actual, suspected or alleged fraud. We addressed the risk of fraud through management override of controls by testing the appropriateness of journal entries and identifying any significant transactions that were unusual or outside the normal course of business. We assessed whether judgements made in making accounting estimates gave rise to a possible indication of management bias. At the completion stage of the audit, the engagement partner's review included ensuring that the team had approached their work with appropriate professional scepticism and thus the capacity to identify non-compliance with laws and regulations and fraud.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities is available 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 Duchy and the Council as a body, for our audit work, for this report, or for the opinions we have formed.

Jamie Younger (Senior Auditor)
for and on behalf of Saffery Champness LLP
Chartered Accountants
Statutory Auditors
71 Queen Victoria Street
London
EC4V 4BE
7 July 2021

Revenue Account Statement of Comprehensive Income

	Note	**Year ended 31 March 2021 £'000**	Year ended 31 March 2020 £'000
Revenue	*2*	**27,508**	28,204
Operating costs	*3*	**(3,535)**	(4,037)
Administrative expenses		**(1,659)**	(1,936)
Operating surplus		**22,314**	22,231
Finance income	*5*	**2,382**	3,068
Finance costs	*6*	**(2,431)**	(2,526)
Net operating income		**22,265**	22,773
Development expenditure recovered from Capital		–	471
Net proceeds from bona vacantia	*9*	**2,000**	4,223
Payable for Duchy of Lancaster charitable purposes		**(2,000)**	(4,223)
Net surplus for the year		**22,265**	23,244
Other comprehensive income:			
Items that will not be reclassified to profit and loss			
Actuarial loss on retirement benefit obligations	*19*	**(562)**	(63)
Total comprehensive income on Revenue account		**21,703**	23,181

The notes to the accounts on pages 28 to 58 are an integral part of these financial statements.

Capital Account Statement of Comprehensive Income

	Note	**Year ended 31 March 2021 £'000**	Year ended 31 March 2020 £'000
Net gain from fair value adjustment on investment property	*12*	**22,576**	3,628
Gain on disposal of investment property		**4,200**	878
Hedge termination costs		**(4,168)**	–
Repayments to capital:			
Proportion of mineral royalties	*3*	**60**	53
Less recovery of capital valuation fees		**(60)**	(53)
Net (expenditure)/income from escheats		**(22)**	48
Staff costs recharged from revenue		**(652)**	(750)
Net gain on disposal of financial assets	*14*	**108**	2,636
Surplus for the year on Capital account		**22,042**	6,440
Other comprehensive income:			
Items that will be reclassified to profit and loss			
Profit/(loss) on the revaluation of financial assets measured at fair value through other comprehensive income	*14*	**1,855**	(2,213)
Gain/(loss) on financial derivatives		**2,725**	(4,126)
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*	**9,234**	(10,297)
Net (loss) from fair value adjustment on other property	*13*	**(304)**	(72)
Total comprehensive income on Capital account		**35,552**	(10,268)

The notes to the accounts on pages 28 to 58 are an integral part of these financial statements.

Balance sheet

	Note	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Assets			
Non–current assets			
Investment property	*12*	**638,457**	608,670
Property, plant and equipment	*13*	**4,914**	5,218
Financial assets	*14*	**71,834**	60,966
Interest rate swaps	*17*	**448**	–
Total non–current assets		**715,653**	674,854
Current assets			
Trade and other receivables	*15*	**3,008**	4,195
Cash and cash equivalents		**19,475**	24,437
Total current assets		**22,483**	28,632
Total assets		**738,136**	703,486
Liabilities			
Current liabilities			
Trade and other payables	*16*	**(22,927)**	(21,456)
Total current liabilities		**(22,927)**	(21,456)
Non–current liabilities			
Borrowings	*17*	**(137,000)**	(137,000)
Interest rate swaps	*17*	**–**	(5,845)
Provisions	*18*	**(884)**	(980)
Retirement benefit obligations	*19*	**12**	286
Total non–current liabilities		**(137,872)**	(143,539)
Total liabilities		**(160,799)**	(164,995)
Net assets		**577,337**	538,491
Capital and reserves			
Capital Account		**575,689**	542,862
Capital hedging reserve	*17*	**448**	(5,845)
Revenue Account		**3,127**	2,839
Retirement benefit reserve		**(1,927)**	(1,365)
Total reserves		**577,337**	538,491

Sir Alan Reid GCVO
Nathan Thompson CVO

7 July 2021

The notes to the accounts on pages 28 to 58 are an integral part of these financial statements.

Statement of Changes in Capital and Reserves

		Capital account		Revenue account		Total
	Note	Capital reserve £'000	Capital hedging reserve £'000	Revenue reserve £'000	Retirement benefit reserve £'000	£'000
Balance as at 31 March 2019		**549,004**	**(1,719)**	**2,619**	**(1,302)**	**548,602**
Net surplus for the year		6,440	–	23,244	–	**29,684**
Other comprehensive income:						
Net loss from fair value adjustment on other property	*13*	(72)	–	–	–	**(72)**
Net loss on the revaluation of financial assets	*14*	(12,510)	–	–	–	**(12,510)**
Loss on financial derivatives		–	(4,126)	–	–	**(4,126)**
Actuarial loss on retirement benefit obligations	*19*	–	–	–	(63)	**(63)**
Less amounts payable to the Privy Purse		–	–	(23,024)	–	**(23,024)**
Balance as at 31 March 2020		**542,862**	**(5,845)**	**2,839**	**(1,365)**	**538,491**
Net surplus for the year		22,042	–	22,265	–	**44,307**
Other comprehensive income:						
Net loss from fair value adjustment on other property	*13*	(304)	–	–	–	**(304)**
Net gain on the revaluation of financial assets	*14*	11,089	–	–	–	**11,089**
Gain on financial derivatives		–	2,725	–	–	**2,725**
Hedge termination costs reclassified from OCI to profit or loss		–	3,568	–	–	**3,568**
Actuarial loss on retirement benefit obligations	*19*	–	–	–	(562)	**(562)**
Less amounts payable to the Privy Purse		–	–	(21,977)	–	**(21,977)**
Balance as at 31 March 2021		**575,689**	**448**	**3,127**	**(1,927)**	**577,337**

Statement of Cash Flows

	Note	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Cash generated from operating activities	*21*	**19,485**	23,872
Interest paid		**(2,431)**	(2,526)
Net cash from operating activities		**17,054**	21,346
Cash flows from investing activities			
Purchase and improvement of investment property	*12*	**(13,852)**	(24,301)
Purchase of owner occupied property		**–**	(1,120)
Purchase of financial investments	*14*	**(5,883)**	(18,073)
Purchase of property, plant and equipment	*13*	**(19)**	(41)
Proceeds from disposal of investment properties		**10,817**	1,884
Proceeds from disposal of financial investments		**6,114**	17,288
Financial investment income		**2,382**	3,068
Net cash outflow from investing activities		**(441)**	(21,295)
Cash flows from financing activities			
Proceeds from additional borrowings		**–**	35,000
Payments made to the Privy Purse		**(21,575)**	(25,080)
Net cash (outflow)/inflow from financing activities		**(21,575)**	9,920
(Decrease)/Increase in cash in the year		**(4,962)**	9,971
Cash and cash equivalents at start of year		**24,437**	14,466
Cash and cash equivalents at end of year		**19,475**	24,437

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 International Financial Reporting Standards ("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 61–62.

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 61–62 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 IFRS (including amendments thereto) and IFRIC interpretations, that became effective for the first time.

Standard	Effective date, annual period beginning on or after
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
Interest Rate Benchmark Reform: amendments to IFRS 9, IAS39 and IFRS7	1 January 2020

Their adoption has not had any material impact on the disclosures or amounts reported in financial statements.

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
Interest Rate Benchmark Reform – Phase 2: amendments to IFRS 9, IAS 39 and IFRS 7, IFRS 4 and IFRS 6	1 January 2021
Covid 19 Related Rent Concessions: amendment to IFRS 16 Leases	1 April 2021 (previously 1 June 2020)
Updating a Reference to the Conceptual Framework: amendments to IFRS 3 Business Combinations	1 January 2022
Property, Plant and Equipment: Proceeds before intended use: amendments to IAS 16	1 January 2022
Onerous Contracts – Cost of Fulfilling a Contract: amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets	1 January 2022
Annual Improvements 2018–2020 cycle	1 January 2022
Classification of Liabilities as Current or Non–Current: amendments to IAS 1	1 January 2023

Notes to the accounts (continued)

(a) Basis of accounting (continued)

Amendments to IFRS 17 – Insurance Contracts; and Extension of the Temporary Exemption from Applying IFRS 9: Amendments to IFRS 4 Insurance Contracts	1 January 2023
Disclosure of Accounting Policies: Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements	1 January 2023
Definition of Accounting Estimates: Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors	1 January 2023

The Duchy is evaluating the impact that these standards will have on the financial statements.

(b) Significant judgements, key assumptions and estimates

Retirement benefit obligations

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

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 an average of 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 20.

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.

(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.

Notes to the accounts (continued)

(d) Valuation of 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. As mentioned in note 1b, 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 as at FVTOCI on initial application of IFRS 9. See Note 1b and Note 14.

Quoted Investments are shown at fair value, determined at 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.

Notes to the accounts (continued)

(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) Strategic land income

Allocation of strategic land income to revenue is limited to 10% of Gross Development Value of the project and 25% of the total receipt of the project.

(k) 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.

(l) 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 asset is presented within non-current 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.

(m) 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.

(n) Bona vacantia

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

Net income from bona vacantia, after allocations for future liabilities and the costs of administering bona vacantia, is applied to the costs of Palatinate administration and historical obligations, and, at the direction of the Council, the balance is transferred to the Duchy of Lancaster Jubilee Trust, the Duchy of Lancaster Benevolent Fund or the Duke of Lancaster Housing Trust, separate registered charities.

Notes to the accounts (continued)

(n) Bona vacantia (continued)

The proceeds from bona vacantia are accounted for by the Duchy in the year in which they are received and represent the proceeds received from estates settled by the Solicitor for the Affairs of the Duchy of Lancaster in the year ended 30 September 2020. The accounts of the Solicitor for the Affairs of the Duchy of Lancaster for the year ended 30 September 2020 are set out on page 60 for information purposes.

(o) 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.

(p) 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.

(q) Trade payables

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

(r) 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 of the facility to which it relates.

(s) 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.

Notes to the accounts (continued)

(s) Hedge accounting (continued)

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 20 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 17.

(t) 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

	2021 **£'000**	2020 £'000
Income from Property		
Commercial	**17,675**	18,670
Agricultural	**5,587**	6,008
Residential	**2,488**	2,445
Strategic land	**1,333**	690
Mineral rents and royalties	**425**	391
Total	**27,508**	28,204

Notes to the accounts (continued)

3. Operating costs

	Repairs and other direct costs £'000	Repayments to Capital £'000	Total 2021 £'000	Total 2020 £'000
Expenditure on property				
Commercial	744	–	**744**	984
Agricultural	626	–	**626**	723
Residential	427	–	**427**	744
Mineral rents and royalties	–	60	**60**	53
	1,797	60	**1,857**	2,504
Staff costs, administration and professional fees	1,678	–	**1,678**	1,533
Total	3,475	60	**3,535**	4,037

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:

	2021 £'000	2020 £'000
Less than one year	**21,122**	20,675
Between one to two years	**17,872**	19,155
Between two to three year	**15,039**	15,936
Between three to four years	**12,279**	13,006
Between four to five years	**9,687**	10,398
After five years	**201,749**	172,104
	277,748	251,274

The value of the assets generating this rental income is detailed in note 12.

5. Finance income

	2021 £'000	2020 £'000
Interest on fixed interest stocks and unit trusts	**600**	1,015
Income from equities	**1,787**	2,055
Bank and other interest	**33**	35
Investment management fees	**(38)**	(37)
	2,382	3,068

Notes to the accounts (continued)

6. Finance costs

	2021 **£'000**	2020 £'000
Loan interest	**2,431**	2,526

Capitalised finance costs are included within purchases at cost in note 12 amount to £365,458 (2020: £176,524). The interest rate used to determine the borrowing costs eligible for capitalisation in the year was 2.2%.

7. Total comprehensive income for the year

	2021 **£'000**	2020 £'000
Total comprehensive income for the year is arrived at after charging:		
Staff costs (note 8(a))	**3,324**	3,090
Depreciation of Property, Plant and Equipment	**19**	41
Auditors' remuneration		
– audit services	**34**	28
– non–audit services	**11**	–

Staff costs of £652,000 (2020:£750,000) are charged to the capital account reflecting the extent that they are deemed to be enhancing its value.

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:

	2021 **£'000**	2020 £'000
Wages and salaries	**2,504**	2,355
Social security costs	**322**	281
Pension contributions	**498**	454
	3,324	3,090

(b) The average number of employees (excluding the Chancellor and non–executive Council members) during the year was 30 (2020: 33).

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 2021 £'000**	Total 2020 £'000
Rt Hon Michael Gove MP	–	–	–	–
Rt Hon David Lidington MP	–	–	–	–
Sir Alan Reid GCVO	70	–	**70**	70
Sir Michael Stevens KCVO	–	–	**–**	–
Mr Nathan Thompson CVO	265	2	**267**	267
Mr Christopher Adcock LVO	163	2	**165**	165
Mr Robert Miles QC (retired on 1 May 2020)	2	–	**2**	15
Miss Kathryn Matthews	18	–	**18**	18
Mr Hugh Bullock	18	–	**18**	18
The Marquess of Downshire	18	–	**18**	18
Mr Marcus Rose	15	–	**15**	15
Ms Sonia Tolaney QC (appointed 30 October 2020)	6	–	**6**	–

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

	2021	2020
Between £85,001 and £90,000	**1**	1
Between £45,001 and £50,000	**–**	–
Between £35,001 and £40,000	**–**	1
Between £20,001 and £25,000	**–**	–

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

	2021 £'000	2020 £'000
Mr Nathan Thompson CVO	**34**	34
Mr Christopher Adcock LVO	**21**	21

Notes to the accounts (continued)

9. Net proceeds from bona vacantia

	2021 £'000	2020 £'000
Proceeds from bona vacantia	**7,437**	8,201
Provisions for late claims transferred to Late Claims Fund	**(2,219)**	(530)
	5,218	7,671
Costs of palatinate administration and historical obligations (note 10)	**(3,218)**	(3,448)
	2,000	4,223

No charitable donation (2020: £1,000,000) 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 £756,500 (2020: £100,000) was made to the Duchy of Lancaster Benevolent Fund arising from the surplus receipts of bona vacantia. The Receiver General and the Attorney General 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

	2021 £'000	2020 £'000
Administration of bona vacantia – costs met directly by the Duchy	**130**	115
Upkeep of castles and historic monuments	**3,167**	2,465
Rental and other income from castles	**(4)**	(4)
Savoy Chapel – stipends, running costs and repairs	**(385)**	367
Ceremonial, ancient stipends, charitable annuities and preservation of historic records	**252**	453
Administration of Duchy of Lancaster charitable funds	**58**	52
	3,218	3,448

Notes to the accounts (continued)

11. Analysis of Balance Sheet

	Revenue		Capital	
	2021	2020	**2021**	2020
	£'000	£'000	**£'000**	£'000
Assets				
Non–current assets				
Investment property	**–**	–	**638,457**	608,670
Property, plant and equipment	**–**	–	**4,914**	5,218
Financial assets	**1,882**	1,980	**69,952**	58,986
Interest rate swaps	**–**	–	**448**	–
Total non–current assets	**1,882**	1,980	**713,771**	672,874
Current assets				
Trade and other receivables	**3,008**	4,195	**–**	–
Cash and cash equivalents	**7,557**	6,867	**11,918**	17,570
Balances due from Capital	**12,138**	9,972	**–**	–
Total current assets	**22,703**	21,034	**11,918**	17,570
Total assets	**24,585**	23,014	**725,689**	690,444
Liabilities				
Current liabilities				
Trade and other payables	**(22,513)**	(20,846)	**(414)**	(610)
Balances due to Revenue	**–**	–	**(12,138)**	(9,972)
Total current liabilities	**(22,513)**	(20,846)	**(12,552)**	(10,582)
Non–current liabilities				
Borrowings	**–**	–	**(137,000)**	(137,000)
Interest rate swaps	**–**	–	**–**	(5,845)
Provisions	**(884)**	(980)	**–**	–
Retirement benefit obligations	**12**	286	**–**	–
Total non–current liabilities	**(872)**	(694)	**(137,000)**	(142,845)
Total liabilities	**(23,385)**	(21,540)	**(149,552)**	(153,427)
Net assets	**1,200**	1,474	**576,137**	537,017
Capital and reserves				
Revenue Account	**3,127**	2,839	**–**	–
Capital hedging reserve	**–**	–	**448**	(5,845)
Capital Account	**–**	–	**575,689**	542,862
Retirement benefit reserve	**(1,927)**	(1,365)	**–**	–
Total reserves	**1,200**	1,474	**576,137**	537,017

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 2019	332,523	180,573	57,671	9,330	580,097
Purchases at cost	20,934	1,721	1,615	31	24,301
Transfers from owner occupied property	1,650	–	–	–	1,650
Disposals	–	–	(256)	(750)	(1,006)
Change in fair value	(2,683)	2,509	2,180	1,622	3,628
Value at 31 March 2020	**352,424**	**184,803**	**61,210**	**10,233**	**608,670**

	Commercial and indirect property investment £'000	Agricultural woods minerals foreshores £'000	Residential £'000	Land held for development £'000	Total £'000
Value at 31 March 2020	352,424	184,803	61,210	10,233	608,670
Purchases at cost	11,265	701	1,513	373	13,852
Disposals	(2,925)	(345)	(94)	(3,277)	(6,641)
Change in fair value	6,440	3,021	193	12,922	22,576
Value at 31 March 2021	**367,204**	**188,180**	**62,822**	**20,251**	**638,457**

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 £13,479,000 (2020: £12,293,000). Sales proceeds are net of expenses of sale and development costs charged from Revenue.

At 31 March 2021 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 2021 by valuer is as follows:

Knight Frank	57%
Savills	43%

Notes to the accounts (continued)

12. Investment Property (continued)

Relationship of significant unobservable inputs to fair value and the impact of significant changes to those inputs

Unobservable input	Impact on fair value of changes to input Increase in input	 Decrease in input
Adjusted comparable vacant possession values	Increase in fair value	Decrease in fair value
Rental values	Increase in fair value	Decrease in fair value
Capitalisation rates	Decrease in fair value	Increase in fair value
Discount Rates	Decrease in fair value	Increase in fair value

Impact on fair value of changes to capitalisation and discount rates

	Increase of 50 basis points £'000	As disclosed £'000	Decrease of 50 basis points £'000
Agricultural	132,629	143,092	162,394
Other rural assets	2,280	2,336	2,398
Urban commercial	326,119	364,225	412,415
Rural commercial	13,261	14,361	15,185
Residential property	59,057	59,605	60,031

Impact on fair value of changes to market rental values

	Increase of 10% £'000	As disclosed £'000	Decrease of 10% £'000
Urban commercial	397,065	364,225	332,767

Notes to the accounts (continued)

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

	Property type	Fair value at 31 March 2021 £'000	Valuation techniques	Unobservable inputs	Range of unobservable inputs (where meaningful)
Agricultural & forestry	Agricultural	143,092	Yield methodology	Rental values Capitalisation rate	– Farms: 0.92% to 5.3%
					Bare land: 1% to 2%
			Adjusted sales comparison approach	Farmland vacant possession values	£401/ac to £12,354/ac average £6,733ac
				Discount rate for terminal value	4.5% to 5%
				Estimate of period until vacant possession achieved	0 to 32 years (average 5 years)
	Forestry	10,068	Adjusted sales comparison approach	Forestry vacant possession values	£1,400/ac to £4,200/ac average £3,175/ac
	Sporting	3,337	Yield methodology	Rental values Capitalisation rate	1.8% to 15% (average 9.74%)
	Foreshore	22,158	Yield methodology	Rental values Capitalisation rate	5% to 20% (average 10.46%)
	Development land	20,755	Discounted cash flow	Discount rate	7% to 15% (average 11%)
				Risk factor	20% to 70% (average 49%)
				Time to completion	1 to 25+ years (average 10 years)
	Other rural assets	2,336	Yield methodology	Rental values Capitalisation rate	– 1.2% to 30% (average 9.24%)
			Adjusted sales comparison approach	Adjusted comparable vacant possession values	£548/acre to £8,497/acre
	Total	**201,746**			
Commercial	Urban commercial	364,225	Yield methodology	Rental values	Industrial : £3.85 to £18.25 psf Office : £12.50 to £82.50 psf Retail: £13.56 to £154.0 psf
				Capitalisation rate	Industrial : 4.00% to 7.75% Office : 3.00% to 9.25% Retail: 4.25% to 6.50% Other: 3.65% to 10.0%
	Rural commercial	14,361	Yield methodology	Rental values	–
				Capitalisation rate	2.31% to 10.2%
	Total	**378,586**			
Residential	Rural residential	59,605	Adjusted sales comparison approach	Adjusted comparable vacant possession values	–
				Discount rate for terminal value	4.5% to 8%
				Estimate of period until vacant possession achieved	0 to 49 years (average 7.2 years)
	Total	**59,605**			

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 2019	5,820	17	331	6,168
Additions during the year	1,120	–	41	1,161
Change in fair value	(72)	–	–	(72)
Transfers to Investment property	(1,650)	–	–	(1,650)
Less: disposals during the year	–	–	–	–
Balance at 31 March 2020	**5,218**	**17**	**372**	**5,607**
Accumulated depreciation				
Balance at 1 April 2019	–	17	331	348
Charged during the year	–	–	41	41
Less: disposals during the year	–	–	–	–
Balance at 31 March 2020	**–**	**17**	**372**	**389**
Net Book Value				
31 March 2020	**5,218**	**–**	**–**	**5,218**

	Owner Occupied Property £'000	Motor Vehicles £'000	Plant & Equipment £'000	Total £'000
Cost or valuation				
Balance at 1 April 2020	5,218	17	372	5,607
Additions during the year	–	–	19	19
Change in fair value	(304)	–	–	(304)
Transfers to Investment property	–	–	–	–
Less: disposals during the year	–	–	(5)	(5)
Balance at 31 March 2021	**4,914**	**17**	**386**	**5,317**
Accumulated depreciation				
Balance at 1 April 2020	–	17	372	389
Charged during the year	–	–	19	19
Less: disposals during the year	–	–	(5)	(5)
Balance at 31 March 2021	**–**	**17**	**386**	**403**
Net Book Value				
31 March 2021	**4,914**	**–**	**–**	**4,914**

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 2019	**13,591**	**51,131**	**2,971**	**67,693**	**2,309**	**70,002**
Purchases	860	17,213	–	18,073	–	18,073
Sale proceeds	(2,539)	(14,034)	(333)	(16,906)	(382)	(17,288)
Gain/(loss) on sale	1,338	1,087	211	2,636	49	2,685
Change in fair value	(2,213)	(9,846)	(451)	(12,510)	4	(12,506)
Value at 31 March 2020	**11,037**	**45,551**	**2,398**	**58,986**	**1,980**	**60,966**
Purchases	398	5,485	–	5,883	–	5,883
Sale proceeds	(361)	(5,522)	(231)	(6,114)	–	(6,114)
Gain/(loss) on sale	(360)	372	96	108	–	108
Change in fair value	1,855	9,812	(578)	11,089	(98)	10,991
Value at 31 March 2021	**12,569**	**55,698**	**1,685**	**69,952**	**1,882**	**71,834**

Debt instruments classified as FVTOCI
Fair value is determined in the manner described in Note 20. The corporate bonds are initially measured at fair value plus transactions 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
Investments in equity instruments designated 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 18.

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 18).

Investment management fees of £386,000 were charged in the year (2020: £294,000). These fees are charged to the capital of the investment funds.

Notes to the accounts (continued)

15. Trade and other receivables

	2021	2020
	£'000	£'000
Trade receivables (rents)	**1,286**	1,881
Other receivables	**361**	321
Prepayments and accrued income	**1,361**	1,993
	3,008	4,195

As of 31 March 2021 trade receivables of £1,286,000 (2020: £1,881,000) were due but not impaired.

The ageing analysis of these trade receivables is as follows:

	2021	2020
	£'000	£'000
Under 3 months	**1,086**	1,802
3 to 12 months	**112**	91
Over 12 months	**88**	(12)

The ageing of impaired receivables is as follows:

	2021	2020
	£'000	£'000
Under 3 months	**426**	239
3 to 12 months	**561**	83
Over 12 months	**31**	50

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:

	2021	2020
	£'000	£'000
At 1 April	**372**	325
Provision for receivables impairment	**663**	62
Receivables written off	**(17)**	(15)
At 31 March	**1,018**	372

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)

16. Trade and other payables

	2021 £'000	2020 £'000
Amounts falling due within one year:		
Trade payables	**1,929**	1,872
Other taxes and social security	**772**	581
Other payables	**2,149**	2,534
Late claims provision	**1,000**	1,000
Accruals and deferred income	**6,668**	6,760
Due to the Privy Purse	**1,575**	1,173
Due to Duchy of Lancaster charitable funds and historical obligations	**8,834**	7,536
	22,927	21,456

17. Borrowings

	Less than 1 year £'000	1 to 5 years £'000	Over 5 years £'000	2020 Total £'000
Borrowings	–	–	137,000	**137,000**
Interest rate swaps	–	–	5,845	**5,845**

	Less than 1 year £'000	1 to 5 years £'000	Over 5 years £'000	2021 Total £'000
Borrowings	–	5,000	132,000	**137,000**
Interest rate swaps	–	169	(617)	**(448)**

The total borrowings of £137m consists of 8 loans with the following terms; Loan of £2.5m repayable October 2025, interest in the year is at a floating rate, all of the loan has been swapped to a fixed rate of 3%. Loan of £2.5m repayable October 2025, interest in the year is at a floating rate, all of the loan has been swapped to a fixed rate of 1.928%. Loan of £18.5m repayable September 2026, interest in the year is at a floating rate, all of the loan has been swapped to a fixed rate of 1.957%. Loan of £18.5m repayable September 2026, interest in the year is at a floating rate, all of the loan has been swapped to a fixed rate of 1.973%. 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 1.485%. Loan of £15m repayable June 2029, interest in the year is at a floating rate, all of the loan has been swapped to a fixed rate of 2.328%. Loan of £20m repayable August 2029, interest in the year is at a floating rate, all of the loan has been swapped to a fixed rate of 1.943%. Loan of £27.5m repayable January 2050, interest in the year is at a fixed rate of 2.2%.

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)

17. Borrowings (continued)

As the critical terms of the interest rate swap contracts and their corresponding hedged items are the same, the Duchy 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.

In June 2020 the Duchy cancelled an outstanding swap with a notional principal of £32.5m (contracted interest rate 2.98%) at a cost of £4.2m and replaced it with a new swap with the same principal at a contracted interest rate of 1.49%. The cost of cancelling the swap has been recognised as a charge to the surplus on the capital account for the year.

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 liabilities		Change in fair value used for calculating hedge ineffectiveness	
	2021 %	2020 %	2021 £'000	2020 £'000	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Less than 1 year	–	–	–	–	–	–	–	–
1 to 2 years	–	–	–	–	–	–	–	–
2 to 5 years	2.46	–	5,000	–	(169)	–	(169)	–
5 years +	1.93	2.31	132,000	137,000	617	(5,845)	617	(5,845)

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 swap 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)

18. 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:

	2021 £'000	2020 £'000
Provisions for late claims received from the bona vacantia account	**2,219**	607
(Decrease)/increase in value of investments	**(98)**	53
Claims paid during the year	**(2,217)**	(989)
Deficit for the year	**(96)**	(329)
Late Claims Fund balance at 1 April	**1,980**	2,309
Late Claims Fund balance at 31 March	**1,884**	1,980

	2021 £'000	2020 £'000
Shown as:		
Included in Trade and other payables	**1,000**	1,000
Included in Non-current liabilities – provisions	**884**	980

Notes to the accounts (continued)

19. Retirement benefit obligations

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

	31 March 2021 % pa	31 March 2020 % pa
Discount rate	**1.9**	2.3
Inflation assumption (RPI)	**3.3**	2.6
Inflation assumption (CPI)	**2.8**	1.8
Rate of increase in pensions in payment	**2.8**	1.8
Rate of increase in pensionable salaries	**4.8**	4.1

Assumed life expectancies on retirement at age 60 are:

	31 March 2021	31 March 2020
Retiring today – males	**26.5**	27.1
Retiring today – females	**28.7**	29.4
Retiring in 20 years times – males	**28.0**	28.4
Retiring in 20 years times – females	**30.3**	30.8

The assets in the Scheme were:

	Value at 31 March 2021 £'000	Value at 31 March 2020 £'000
Gilts	**5,662**	6,061
Equities	**3,887**	3,064
Cash	**135**	23
Fair value of Scheme assets	**9,684**	9,148

The actual return on assets over the period was:

	Value at 31 March 2021 £'000	Value at 31 March 2020 £'000
Actual return on assets over the period	**828**	(497)

	2021 £'000	2020 £'000
Present value of funded obligations	**(9,672)**	(8,862)
Fair value of Scheme assets	**9,684**	9,148
Surplus in funded scheme	**12**	286
Present value of unfunded obligations	**–**	–
Unrecognised actuarial gains/(losses)	**–**	–
Adjustment in respect of asset ceiling and minimum funding requirement	**–**	–
Net surplus in balance sheet	**12**	286

Notes to the accounts (continued)

19. Retirement benefit obligations (continued)

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

	2021 £'000	2020 £'000
Benefit obligation at beginning of year	**8,862**	9,743
Current service cost	**12**	57
Interest cost	**197**	218
Contributions by Scheme participants	**1**	2
Net remeasurement loss/(gain) – financial	**1,422**	(436)
Net remeasurement (gain)/loss – demographic	**(11)**	(299)
Net remeasurement (gain)/loss – experience	**(228)**	77
Benefits paid	**(583)**	(500)
Past service cost	**–**	–
Benefit obligation at end of year	**9,672**	8,862

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

	2021 £'000	2020 £'000
Fair value of Scheme assets at beginning of year	**9,148**	9,872
Interest income on Scheme assets	**207**	224
Return on assets, excluding interest income	**621**	(721)
Contributions by employer	**354**	300
Contributions by Scheme participants	**1**	2
Benefits paid	**(583)**	(500)
Scheme administrative costs	**(64)**	(29)
Fair value of Scheme assets at end of year	**9,684**	9,148

Reconciliation of the effect of the asset ceiling

	2021 £'000	2020 £'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:

	2021 £'000	2020 £'000
Service cost – including current and past service costs and settlements	**12**	57
Service cost – administrative cost	**64**	29
Net interest on the net defined benefit liability	**(10)**	(6)
Total expense	**66**	80

Notes to the accounts (continued)

19. Retirement benefit obligations (continued)

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

	2021 £'000	2020 £'000
Net remeasurement loss/(gain) – financial	**1,422**	(436)
Net remeasurement loss/(gain) – demographic	**(11)**	(299)
Net remeasurement loss/(gain) – experience	**(228)**	77
Return on assets, excluding interest income	**(621)**	721
Changes in the effect of the asset ceiling excluding interest income	**–**	–
Total remeasurement of net defined benefit liability/(asset) to be shown in OCI	**562**	63

Sensitivity analysis

	Impact on Scheme liabilities	
	2021	2020
Discount rate – decrease by 1.0% pa	**+14%**	+12%
Rate of inflation rate (CPI) – increase by 0.2% pa	**+2%**	+2%
Mortality (increase life expectancy by 1 year)	**+6%**	+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 2021.

Notes to the accounts (continued)

19. 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 £284,000 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 assets 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)

20. 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 2020.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets				
Debt instruments at fair value through other comprehensive income (FVTOCI)	11,037	–	–	11,037
Investments in equity instruments designated at FVTOCI	47,949	1,980	–	49,929
Total recurring financial assets	58,986	1,980	–	60,966
Financial liabilities				
Interest rate swaps	–	5,845	–	5,845
Total recurring financial liabilities	–	5,845	–	5,845
Non–financial assets:				
Investment properties	–	–	608,670	608,670
Owner occupied properties	–	–	5,218	5,218
Total recurring non–financial assets	–	–	613,888	613,888
Non–recurring fair value measurements				
Property held for sale	–	–	–	–
Total non–recurring assets	–	–	–	–

Notes to the accounts (continued)

20. 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 2021.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets				
Debt instruments at fair value through other comprehensive income (FVTOCI)	12,569	–	–	12,569
Investments in equity instruments designated at FVTOCI	57,383	1,882	–	59,265
Total recurring financial assets	69,952	1,882	–	71,834
Financial debtors				
Interest rate swaps	–	448	–	448
Total recurring financial liabilities	–	448	–	448
Non–financial assets:				
Investment properties	–	–	638,457	638,457
Owner occupied properties	–	–	4,914	4,914
Total recurring non–financial assets	–	–	643,371	643,371

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	–	22,576	(304)	22,272

Notes to the accounts (continued)

20. 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)

20. Fair value measurements (continued)

The following table sets out the valuation technique used in determination of fair values within levels 2 and 3 including the key inputs used.

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

21. Cash flow notes

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

	2021 £'000	2020 £'000
Net surplus on Revenue account	**22,265**	23,244
Net surplus on Capital account	**22,042**	6,440
Adjusted for:		
Depreciation	**19**	41
Current service costs less contributions to pension scheme	**(288)**	(220)
Net finance income/(cost)	**49**	(542)
Decrease/(increase) in valuation of other financial investments	**98**	(4)
Net gain from fair value adjustment on investment property	**(22,576)**	(3,628)
Gain on disposal of investment property	**(4,200)**	(878)
Net gain on the disposal of financial assets	**(108)**	(2,636)
Net gain on the disposal of other financial assets	**–**	(49)
Decrease/(increase) in receivables	**1,189**	(741)
Increase in payables	**995**	2,845
Net cash inflow from operating activities	**19,485**	23,872

Notes to the accounts (continued)

21. Cash flow notes (continued)

Reconciliation of liabilities arising from finance activities

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

	1 April 2019 £'000	Cash flow £'000	Acquisitions and disposals £'000	Fair value gains and losses £'000	Interest charge £'000	31 March 2020 £'000
Cash and bank balances	14,466	9,971	–	–	–	24,437
Interest rate swaps	(1,719)	–	–	(4,126)	–	(5,845)
Borrowings	(102,000)	(35,000)	–	–	–	(137,000)
	(89,253)	**(25,029)**	**–**	**(4,126)**	**–**	**(118,408)**

	Non–current assets £'000	Current assets £'000	Current liabilities £'000	Non–current liabilities £'000	Total £'000
Cash and bank balances	–	24,437	–	–	24,437
Interest rate swaps	–	–	–	(5,845)	(5,845)
Borrowings	–	–	–	(137,000)	(137,000)
Balance at 31 March 2020	**–**	**24,437**	**–**	**(142,845)**	**(118,408)**

	1 April 2020 £'000	Cash flow £'000	Acquisitions and disposals £'000	Fair value gains and losses £'000	Interest charge £'000	31 March 2021 £'000
Cash and bank balances	24,437	(4,962)	–	–	–	19,475
Interest rate swaps	(5,845)	4,168	–	2,125	–	448
Borrowings	(137,000)		–	–	–	(137,000)
	(118,408)	**(794)**	**–**	**2,125**	**–**	**(117,077)**

	Non–current assets £'000	Current assets £'000	Current liabilities £'000	Non–current liabilities £'000	Total £'000
Cash and bank balances	–	19,475	–	–	19,475
Interest rate swaps	–	–	–	448	448
Borrowings	–	–	–	(137,000)	(137,000)
Balance at 31 March 2021	**–**	**19,475**	**–**	**(136,552)**	**(117,077)**

Notes to the accounts (continued)

22. Related party transactions

No charitable donations were made made to the Duke of Lancaster Housing Trust (2020: £1,000,000) 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 £756,500 (2020: £100,000) was made to the Duchy of Lancaster Benevolent Fund arising from the surplus receipts of bona vacantia. The Receiver General and the Attorney General of the Duchy of Lancaster together with the Vice Chancellor of the County Palatine act as trustees of the Duchy of Lancaster Benevolent Fund.

Payments amounting to £7,132 (2020: £61,171) were made in the year to Box Property Investments, being a company owned by Lara Thompson, wife of the CEO. From 1 April 2020 Lara Thompson was employed by the Duchy as Head of Rural Development at a market based salary.

23. Financial risk management

A review of the Duchy's financial risks is set out in the Strategic Report on pages 13 to 16.

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 assets 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. As at 31 March 2021, the Duchy has swapped or fixed 100% of its loans as detailed in note 17.

The Duchy manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps and fixed interest loans. 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

The majority of the Duchy's financial liabilities other than its borrowings all fall due within one year and notes 16-18 provide further details of these liabilities. Liquidity risk is minimised by holding nearly £70m 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 18) and its retirement benefit obligations (see note 19) due to the uncertain timing of their potential crystallisation.

Notes to the accounts (continued)

23. Financial risk management (continued)

The table below summarises the maturity profile of the Duchy's financial liabilities on a contractual undiscounted cash flow basis:

	Less than 1 year £'000	1 to 5 years £'000	Over 5 years £'000	Total £'000
Borrowings	–	5,000	132,000	137,000
Net interest payable on swaps	–	169	(617)	(448)
Trade and other payables	14,487	–	–	14,487
At 31 March 2021	**14,487**	**5,169**	**131,383**	**151,039**
At 31 March 2020	13,115	–	142,845	155,960

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 15 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.

24. Capital Commitments

As at 31 March 2021 the Duchy had entered into contracts for major improvements works in respect of various refurbishments that gave rise to capital commitments totalling £7,083,000 (2020: £18,703,000).

Duchy of Lancaster Rural Surveys

The Duchy of Lancaster Rural Surveys totalling approximately 18,200 hectares are located as follows:

	Hectares
The Staffordshire Survey	**2,976**
Needwood estate	
The Cheshire Survey	**1,550**
Crewe estate	
Marbury estate	
The Lancashire Survey	**3,943**
Whitewell estate	
Myerscough estate	
Wyreside estate	
Salwick estate	
The Yorkshire Survey	**6,121**
Cloughton estate	
Pickering estate	
Marishes estate	
Goathland estate	
Pontefract estate	
The Southern Survey	**3,658**
Higham Ferrers estate	
Castleton estate	
Ogmore estate	
Lincolnshire estate	
	18,248

Accounts of the Solicitor for the Affairs of the Duchy of Lancaster for the year ended 30 September 2020

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 199 intestate estates (2019: 189) and 1,328 dissolved companies (2019: 1,566) were formally reported.

Income and expenditure account for the year ended 30 September 2020

	2020 £
Income	
Monies received from dissolved companies	7,110,634
Monies received from intestate estates	1,913,236
Interest and other	37,506
Monies received	9,061,376
Expenditure	
Payments to next of kin	(1,789,446)
Company restoration	(1,968,268)
Ex–gratia payments to claimants	(20,943)
Administration costs	(931,325)
Net income less expenditure	4,351,394
Paid to the Duchy of Lancaster	(6,520,120)
Net deficit for the year ended 30 September 2020	(2,168,726)
Cash balances at 1 October 2019	9,920,830
Net deficit for the year ended 30 September 2020	(2,168,726)
Cash balances at 30 September 2020	7,752,104

Balance sheet as at 30 September 2020

	2020 £
Current assets	
Cash and deposits	7,752,104
	7,752,104
Current liabilities	
The Duchy of Lancaster	(2,720,842)
Other creditors	–
	(2,720,842)
Total assets less current liabilities	5,031,262
Representing:	
Estates under administration	5,031,262

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 2021

www.duchyoflancaster.co.uk

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