Duchy of Lancaster

Report and Accounts

Year ended 31st March 2022

Preserving the past, investing for the future

Her Majesty The Queen and His Royal Highness The Prince Philip, Duke of Edinburgh, Coronation Day 1952

DUCHY of LANCASTER

Annual Report

Report and accounts of the Duchy of Lancaster for the year ended 31 March 2022

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 in key strategic locations across the country.

History

In 1265, King Henry III gifted the baronial lands of Simon de Montfort to his second son Edmund. 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 received further gifts of lands from his father, including the manor of Newcastle-under-Lyme in Staffordshire and various lands and estates across 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.

In February 2022, Her Majesty The Queen celebrated her Platinum Jubilee and also seventy years as the Duke of Lancaster.

John Speed’s 1610 map ‘The Countie Palatine of Lancaster’

Introduction *continued*

King Henry V, Westminster Abbey
© Dean and Chapter of Westminster

Brass rubbing of John Leventhorpe, first Receiver General of the Duchy of Lancaster

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 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. This gave the new Duke of Lancaster devolved royal powers, including administrative control of the law courts and the right to appoint senior officials serving the County such as the sheriff, judges and local justices of the peace.

When Henry Grosmont died in 1361, the inheritance became part of his daughter Blanche's dowry. Blanche had married one of Edward III's sons, John of Gaunt, in 1359. John was thus made the second 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, taking possession of Henry VI's forfeited estates. In 1461, 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

Introduction *continued*

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 operates as a contemporary asset management company. Its role is to preserve and enhance the long-term capital value of the ancient inheritance while protecting the lives and livelihoods of its tenants.

Our objective is to continue to deliver sustainable revenue growth while working with our tenants and local communities to provide appropriate help and support wherever practicable. Our business strategy is continually reviewed and updated in response to market changes to ensure that the organisation remains appropriately focused and balanced.

As a major owner of agricultural land and areas of outstanding natural beauty across England and Wales, the Duchy has a responsibility to safeguard its 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 and sustainable farming practices actively encouraged. 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.

For a number of years now, our areas of focus and partnership have included: the identification and mapping of the biodiversity across our holdings; the introduction of measures to protect and enhance the natural habitats on which this biodiversity depends; the development of responsible soil management strategies to improve the quality and productivity of the land; and plans to improve 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. We believe that this is critical to the productivity and profitability of their farming businesses as well as being a key tenet of the Duchy's long-term environmental and sustainability strategy.

Coat of arms of Henry Grosmont, 1st Duke of Lancaster

Specially commissioned Diamond Jubilee window in The Queen's Chapel of the Savoy.

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. 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 1,515 hectares, stretching from the edge of the town to the M6 at Junction 16.

There are 11 main farms on the estate which are involved in dairy, arable and livestock production as well as equestrian businesses and woodlands. At Crewe Hall Farm the Duchy has created a highly sought-after business address, with 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 67 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.

Crewe Estate, Cheshire.

• 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.

The 477-hectare Salwick estate is predominantly farmland but includes around 15 hectares

The Surveys *continued*

Whitewell Estate, Lancashire

of woodland, as well as three residential properties and six commercial lettings. There are four equipped agricultural holdings on the estate, the majority of which are dairy farms.

At 2,578 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 ten 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 six 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 under a wide area.

The Northamptonshire estates are centred on the 13th century inheritance of Higham Ferrers and Wollaston, with a total land holding of 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.

Needwood Estate, Staffordshire.

- **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, 50 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 has recently been renewed until 2026. 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.

The Surveys *continued*

- **Yorkshire**

The Yorkshire Survey covers 6,117 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 31 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 983-hectare estate also includes 283 hectares of mixed forestry.

The 156-hectare Pontefract estate lies on the edge of the town and primarily consists of one large farm, several commercial lettings and one residential property.

Urban

The Duchy's Urban Survey includes land and buildings on the Strand in Central London, Harrogate and Crewe 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 and the creation of a recently 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.

Fields Farm, Cloughton Estate, Yorkshire

The Surveys *continued*

Street view of The Strand in the heart of the Savoy Estate.

New front facade and entrance for SavoyStrand.

SavoyStrand offers views of The Queen's Chapel of the Savoy.

Open air terraces provide communal wellbeing spaces.

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, Birmingham and Redditch in the Midlands and Manchester, Blackburn and Speke in the North West.

In 2019 the Urban team began work on a major office refurbishment project on the Strand. Construction of the project completed in March 2022 and the building has been successfully let to eight occupiers. Only one floor remains vacant.

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.

Developments have been completed in Holtby, Marton cum Grafton and Chalveston in the past year with new developments set to commence in Higham Ferrers, Crewe and Wollaston.

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.

Our Sustainability Journey

The Duchy recognises the urgency of responding to climate change and will seek to reduce greenhouse gas emissions as quickly as possible in the years ahead.

The Duchy is committed to reducing its energy consumption and becoming operationally net zero (scope 1 and 2) by 2028. In addition, we will continue to work with our tenants and partners to encourage regenerative farming practices as a means of further reducing carbon emissions across the estates, while continuing to invest in renewable and clean energy sources. We will also seek to minimise our construction impacts by introducing more environmentally friendly and ecologically sympathetic materials and technologies to our building and refurbishment projects.

We have taken a number of positive steps, introducing environmental strategies such as the responsible management of waste, intelligent sourcing of sustainable materials and further investment in natural capital enhancements across all areas of the business. We have also audited and mapped our Foreshore Survey which will help us identify solutions to further protect and enhance our biodiversity for the future.

We acknowledge that we still have much to do. Nevertheless, as a signatory to the Terra Carta in support of HRH The Prince of Wales' Sustainable Markets Initiative, our intent and ambitions for a sustainable long-term future for our estates are clearly expressed and understood.

Our Sustainability Journey *continued*

Responsible Farming

The Duchy has invited tenants to commit to a shared ambition to protect and enhance the long-term health and sustainability of its rural estates.

Our rural surveyors are working with their farming tenants to develop clear environmental and sustainability strategies for each holding. These action plans have, in part, been informed by the extensive biodiversity audit carried out in partnership with Natural England and the Game and Wildlife Conservation Trust (GWCT) which enabled us first to map the biodiversity on our estates and then to work with our tenants to protect and enhance the wide variety of habitats present.

Many of our farming tenants have already introduced environmentally friendly practices into their everyday activities such as the introduction to field boundaries of wild bird seed mixtures rich in pollen and nectar. Over a third have undertaken similar work to enhance natural habitats across their holdings including the use of minimum tillage cultivation to enhance soil health. Some of our tenants have gone further and have fully embraced direct drilling across the whole enterprise or have entered their entire holding into environmental stewardship schemes.

Other positive enhancements include the addition of floristically enhanced grass margins, proactive hedgerow management and the restoration of abandoned ponds to create reed beds for birds and other native wildlife.

We remain committed to the principles of responsible soil management and will continue to fund applications for financial support towards the cost of specialist equipment to facilitate this. In October we hosted the third soil management workshop for our tenants at the Allerton Project, a GWCT research farm in Loddington. Hosted by scientists, ecologists and environmental and farming experts, the workshops take the form of tutorials covering soil structure, chemistry and biology as well as practical demonstrations of ways in which our farmers can improve soil health and productivity. The aim is to support farmers in the preparation of effective soil management strategies which will protect and preserve the natural environment and the rich biodiversity of the Duchy's rural estates, while facilitating the sustainable productive capacity of the holdings for generations to come.

In the year ahead, we will start to incorporate plans for sustainable water management, carbon capture and the use of eco-friendly energy sources wherever possible. Our objective is to minimise the impact of certain farming practices on the long-term sustainability of our estates in order to protect and preserve them for future generations.

Woodland Planting

Responsible and sustainable woodland management remains a key tenet of our long-term strategy for the management of the Duchy's rural estates.

Our Sustainability Journey *continued*

Over the last 12 months we have completed the first planting phase of our habitat plan to create 25 acres of new woodland at Needwood in Staffordshire. This will help to reintroduce indigenous species such as oak, lime, silver birch, Scots pine and field maple to the estate. The new woodland areas connect into an existing footpath network and will therefore be accessible to the general public, as well as extending part of the National Forest.

On the Whitewell Estate in Lancashire we are working with the Forestry Commission, Natural England and local Area of Outstanding Natural Beauty authority to design a significant new 50-acre woodland at Fair Oak Fell as well as restocking two adjacent plantations with mixed woodland planting.

As part of our ongoing woodland creation plan, we have also planted more than 175 trees within existing hedgerows across the estate. Working in partnership with specialist forestry consultants and the National Forest, we have created tree-lined entranceways to Hadley Farm and Eland Lodge Equestrian Centre and established a new avenue of trees along one of the main routes through the Needwood estate. This

has substantially improved the landscape in these areas and is part of an ongoing process to replace some of the countless historic hedgerow trees that have been lost in previous decades. By incorporating the trees into the existing ancient hedgerow network, we have created new bird nesting and foraging habitats and enhanced essential wildlife corridors across the estate.

Under the aegis of The Queen's Green Canopy and in celebration of Her Majesty's 70-year reign as both the British Monarch and the longest-serving Duke of Lancaster we have planted 70 commemorative 'Jubilee' trees across the Rural Surveys. We have also established a new parkland at the entrance to our holiday cottages near Scarborough, created a new woodland spinney on one of our Lancashire estates at Wyreside, and planted a new pollinator glade at Pickering Woods.

Green By Design

The Duchy of Lancaster is committed to sustainable property management, reducing our resource consumption wherever we can.

This year we have begun to trial a number of eco-friendly and energy efficient alternatives in the refurbishment of our managed properties as well as in our turnaround and development projects. These include the use of renewable energy sources including ground-source heat pumps, the introduction of wood-fibre insulation in roofs and walls, the selection of natural and recycled materials in soft furnishings such as carpets, improved thermal controls including smart meters and thermostats, and the installation of electric vehicle charging points.

In developing our refurbishment plans for an Art Deco building in London's mid-town, we opted to retain as much of the original building as possible in order to avoid the need for demolition

Our Sustainability Journey *continued*

and the embodied carbon emissions associated with new construction and recycled over 80 per cent of all site waste during the construction process. Inside the building, we installed a highly efficient 'clean air' ventilation system and optimized water use through the installation of control valves in all bathrooms and WCs. The lighting system is designed to conserve energy by responding to ambient daylight levels in real time and the building offers touch-free lift access throughout. The refurbished building, renamed as SavoyStrand, also includes a suite of high quality facilities to improve staff wellbeing, including break-out spaces, cycle storage, showers, locker rooms and green roof terraces planted with pollinator-friendly flora.

These and other similar improvements are being taken forward as part of an updated Duchy design specification and quality standard which can be rolled out across both the rural and the urban property portfolios. Our over-riding objective remains to unlock potential and create sustainable spaces in which our tenants, the wider community and the natural biodiversity of the estates can survive and thrive.

Strategic Report

Our Ambition

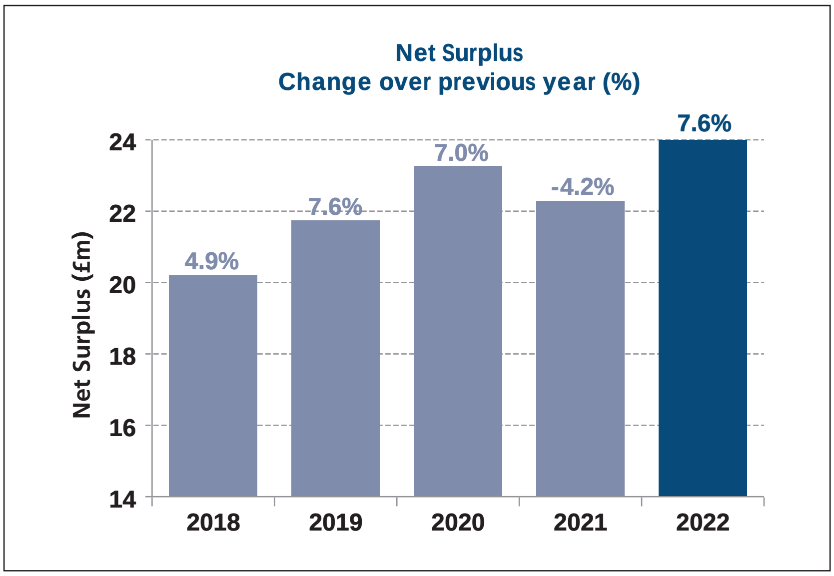
The Duchy's over-arching objective is to become one of the most respected let landed estates in the country. We will achieve this by:

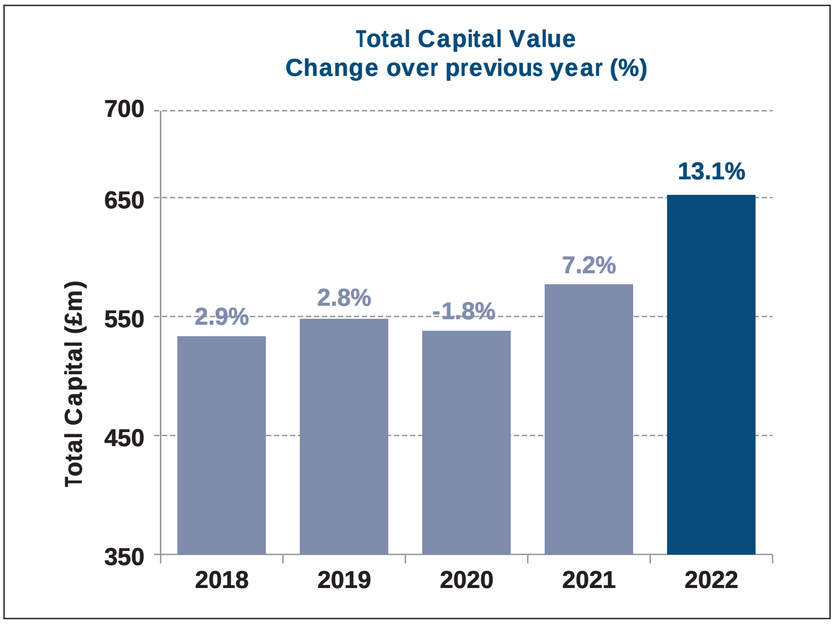
- Maintaining supportive and constructive tenant relationships
- Continuing our investment in restoration and maintenance
- Enhancing the quality and diversity of our asset base
- Investing in our sustainability programme
- Protecting the value of the portfolio for future generations.

We have developed a detailed sustainability plan which encompasses biodiversity and soil management in our rural portfolio, reducing our own operational greenhouse gas emissions, addressing the energy efficiency of properties across our portfolio, expansion and management of our woodlands, continuing community engagement and an increasing awareness of responsible investing principles to be applied to our financial portfolio.

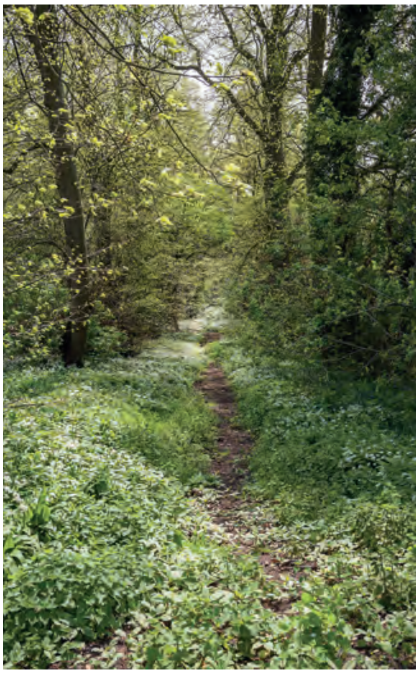
Some of our initial steps on this sustainability journey are outlined on pages 11 to 14. Going forward, we will develop specific benchmarking and performance measures which will enable us to demonstrate and enhance the value of our activities and investment in these critical activities.

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





Strategic Report *continued*



A popular woodland walk on the Crewe Estate in Cheshire.

Financial Review

The Net Surplus for the year, Balance Sheet and changes in Net Asset Value are detailed on pages 26 to 29 of the accounts and in the related notes.

- The Net Surplus has increased in the year by 7.6% to £24.0m (2021: £22.3m). This represents a 3.1% increase over the pre-Covid-19 surplus in the year to March 2020.
- The Net Asset Value has increased by 13.1% to £652.8m (2021: £577.3m).

The Net Surplus for the year reflects a return to growth in income across most areas of our business as the impact of Covid-19 on the broader economy has receded. However, we remain acutely aware that many businesses and individuals are dealing with lasting consequences of the pandemic, and we continue to monitor, communicate with and provide support to our tenants as we move forward into recovery with optimism.

The growth in Net Surplus is underpinned by our gross commercial income which has increased by 8.7% as a result of healthy market rental growth in our industrial portfolio. The increase also reflects the positive outcome of a significant number of new leasing transactions during the year. Gross income growth in our agricultural and residential portfolios has also been positive at 4.7% and 6.9% respectively, the latter reflecting the successful completion of residential property refurbishments during the year.

Income from our financial portfolio has grown by 11.7% as companies resumed the payment of dividends during the financial year. Our finance costs reduced by 10.4% as our interest rate hedging transactions have reduced our average cost of borrowings to just 1.95%.

Our forecasts reflect the risks presented by tenancies coming to an end but also the opportunity for us to deliver and re-let high quality refurbished accommodation to new and existing tenants successfully. We remain cautiously optimistic that we can continue to grow our income in the coming years.

The value of our investment properties grew by £62.3m in the year, an increase of 9.5% on a like-for-like basis after allowing for sales and capital expenditure. This growth reflects a continuing positive market for rental values and yields in the sectors in which we operate. Nearly 70% of this increase was delivered by our commercial properties. Over the year, the Duchy spent over £13m on re-development, permanent repairs and improvements to its land and property, plus costs associated with progressing opportunities with respect to development land. We received an aggregate of £2.1m from property sales and other capital receipts.

The value of the financial portfolio delivered gains on sale and valuation surplus totalling £4.5m or 6.5% on a like-for-like basis, reflecting the continuing recovery

Strategic Report *continued*

of the equity markets during the year. The portfolio recorded a total return of 10.5% including investment income.

As interest rates and forward yields on fixed interest securities have increased during the year the unrealised value of our interest rate swaps has also increased by £7.1m to £7.6m, reflecting that our hedging strategy has delivered a much lower fixed cost of borrowing than might have been expected at current market rates.

Liquidity and the Financial Portfolio

The Duchy has gross borrowings of £137m and benefits from historically low interest rates with an average cost of debt of 1.95% at 31 March 2022 which is fixed for the remaining duration of the loans.

Council has approved borrowings of up to 25% of net assets and that ratio stands at 21%. Since the end of the financial year, we have successfully concluded an agreement to borrow a further £20m for a term of 30 years at an average fixed interest rate of 3.05%. The proceeds will be applied to meet committed and forecast capital expenditure to maintain and enhance our property portfolio.

The financial portfolio, as well as providing significant income for the Duchy, remains a major additional source of liquidity to meet capital expenditure. 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 and other capital receipts e.g. from development of land.

Principal risks and uncertainties

Since early 2020 we have continued to operate in an uncertain economic environment as a consequence of the Covid-19 pandemic. This has been exacerbated latterly by market volatility, supply chain disruption and inflationary pressures all driven by external factors.

Throughout the Covid-19 pandemic we were very active in engaging with our tenants, our suppliers and our staff to deliver positive outcomes through a partnership approach. We believe this has helped to minimise the impact of the pandemic on all concerned and that our financial performance during the year ended 31 March 2022 reflects this success.

We will continue to manage both the continuing risks of Covid-19 and the additional risks presented by the underlying economic uncertainties with cautious optimism. We are also committed to our continuing journey towards an ever more sustainable business.

The Whitewell Estate in Lancashire an Area of Outstanding Natural Beauty

Strategic Report *continued*

New Jubilee Wood planted by the Lord-Lieutentant and his deputies on the Wyreside estate in Lancashire.

We maintain a comprehensive risk register which is reviewed annually by Council. In addition, Audit and Risk Committee considers the specific impact of identified risks, how these are managed or mitigated and make recommendations to the Council accordingly.

The principal risks faced by the Duchy are identified as follows:

Strategic and macro-economic risk

Each year the Duchy writes a five-year business plan and prepares rolling forecasts for the year ahead. As part of this process, and with the input of our advisory committees and boards, a review is undertaken of long-term trends in the sectors in which we operate, including current uncertainties in the local and global economy such as inflation and supply chain challenges. This informs a continuous appraisal of the strategic options available to give assurance on the ongoing viability of Duchy operations and to deliver continuing growth in the future.

Property risk

The principal property risk is the loss of income. A full review of tenants and sectors is undertaken quarterly to consider the diversification of the tenant base and the lease expiry profile. We also assess measures for improving covenant strength and diversification of the tenant base across the Duchy portfolio.

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 Duchy Council.

Covid-19 risk

The long-term impact of Covid-19 on our tenants and their businesses remains an uncertainty for the Duchy to manage. We will continue to liaise closely with staff, tenants, suppliers and partners to provide appropriate advice and support.

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.

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 and by regular detailed re-forecasting of capital cash flows. Liquidity is also assured by

Strategic Report *continued*

additional sources including the possible sale of non-core properties and other capital receipts, e.g. from development of land.

Environmental risk

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

Cyber risk and data handling

The Duchy has developed and deployed a robust system of safeguards and controls to prevent attacks upon or unauthorised access to our corporate IT systems. These controls are subject to constant monitoring. We also have established policies and procedures in place to ensure our compliance with all applicable data security and handling laws and regulations.

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 as Duke of Lancaster.

Financial controls and Governance

Council is responsible for ensuring that an effective system of internal financial controls and governance is maintained and operated by the Duchy. Both the Audit and Risk Committee and the 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
5 July 2022

Sunflower Trails in Cheshire promote wellbeing and aid positive mental health.

Report of Council

The Duchy and Palatinate seals of Her Majesty Queen Elizabeth II.

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 three separate registered charities. 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 accounts are prepared in compliance with the Treasury Direction set out on pages 64 - 65. 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 (who are the serving members of Council as below) 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.

Report of Council *continued*

View towards Fair Oak Fell, 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 relating to senior Duchy appointments and those duties conferred upon the Chancellor by statute are excluded from the delegation.

Appointments to the Duchy Council are made by Her Majesty The Queen on the advice of the Chancellor. 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 (designated as the Proper Officers) for the financial year to 31 March 2022 were:

- Sir Alan Reid GCVO (Chairman of the Council)
- Sir Michael Stevens KCVO (The Receiver General)
- Ms Sonia Tolaney QC (The Attorney General)
- Mr Nathan Thompson CVO (Chief Executive and Clerk of the Council)
- Mr Hugh Bullock
- Mr Marcus Rose
- The Marquess of Downshire
- Ms Jill May (appointed 24 February 2022)
- Ms Lucy Macdonald (appointed 24 February 2022)
- Miss Kathryn Matthews (retired 31 December 2021)
- Mr Christopher Adcock LVO (retired 30 April 2021)

Report of Council *continued*

1 Lancaster Place, Strand, London

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 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 protecting natural capital and improving sustainability across all areas of the business. Finding ways to protect the natural 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 oversight 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. Although the Duchy is not obliged to comply with the requirements of the Code, Council nevertheless

Report of Council *continued*

supports the principles and provisions set out in the Code and seeks to comply with these in so far as they are applicable to the circumstances of the Duchy. A full compliance statement is produced internally and reviewed annually by Council.

The 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 follows:

- Rural, Strategic Land and Finance Committees, each chaired by a member of Council;
- an advisory board reporting to the CEO.

Internal control and risk

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

- a defined management structure with appropriate delegation of authority to operational management;
- the setting of detailed budgets and regular 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 page 18.

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 surplus projections based on conservative assumptions for the next five years and considers 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
5 July 2022

The refurbished courtyards of Lancaster Castle at night.

Independent Auditor's 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 2022 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 2022 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 22, 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

Independent Auditor's Report to the Council of the Duchy of Lancaster (continued)

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
5 July 2022

Revenue Account Statement of Comprehensive Income

	Note	**Year ended 31 March 2022 £'000**	Year ended 31 March 2021 £'000
Revenue	*2*	**28,691**	27,508
Operating costs	*3*	**(3,846)**	(3,535)
Administrative expenses		**(1,509)**	(1,659)
Operating surplus		**23,336**	22,314
Finance income	*5*	**2,663**	2,382
Finance costs	*6*	**(2,179)**	(2,431)
Net operating income		**23,820**	22,265
Development expenditure recovered from Capital		**146**	-
Net proceeds from bona vacantia	*9*	**4,417**	2,000
Payable for Duchy of Lancaster charitable purposes		**(4,417)**	(2,000)
Net surplus for the year		**23,966**	22,265
Other comprehensive income:			
Items that will not be reclassified to profit and loss			
Actuarial gain/(loss) on retirement benefit obligations	*19*	**611**	(562)
Total comprehensive income on Revenue account		**24,577**	21,703

The notes to the accounts on pages 31 to 61 are an integral part of these financial statements.

Capital Account Statement of Comprehensive Income

	Note	**Year ended 31 March 2022 £'000**	Year ended 31 March 2021 £'000
Net gain from fair value adjustment on investment property	*12*	**62,334**	22,576
Gain on disposal of investment property		**1,434**	4,200
Hedge termination costs		**–**	(4,168)
Repayments to capital:			
Proportion of mineral royalties	*3*	**88**	60
Less recovery of capital valuation fees		**(88)**	(60)
Net income/(expenditure) from escheats		**21**	(22)
Staff costs recharged from revenue		**(644)**	(652)
Net gain on disposal of financial assets	*14*	**828**	108
Surplus for the year on Capital account		**63,973**	22,042
Other comprehensive income:			
Items that will be reclassified to profit and loss			
Profit on the revaluation of financial assets measured at fair value through other comprehensive income	*14*	**736**	1,855
Gain on financial derivatives		**7,103**	2,725
Items that will not be reclassified to profit and loss			
Net gain on the revaluation of financial assets measured at fair value through other comprehensive income	*14*	**2,925**	9,234
Net gain/(loss) from fair value adjustment on other property	*13*	**71**	(304)
Total comprehensive income on Capital account		**74,808**	35,552

The notes to the accounts on pages 31 to 61 are an integral part of these financial statements.

Balance sheet

	Note	Year ended 31 March 2022 £'000	Year ended 31 March 2021 £'000
Assets			
Non–current assets			
Investment property	*12*	**712,660**	638,457
Property, plant and equipment	*13*	**5,536**	4,914
Financial assets	*14*	**75,741**	71,834
Interest rate swaps	*17*	**7,551**	448
Total non–current assets		**801,488**	715,653
Current assets			
Trade and other receivables	*15*	**2,965**	3,008
Cash and cash equivalents		**14,370**	19,475
Total current assets		**17,335**	22,483
Total assets		**818,823**	738,136
Liabilities			
Current liabilities			
Trade and other payables	*16*	**(29,175)**	(22,927)
Total current liabilities		**(29,175)**	(22,927)
Non–current liabilities			
Borrowings	*17*	**(137,000)**	(137,000)
Provisions	*18*	**(784)**	(884)
Retirement benefit obligations	*19*	**892**	12
Total non–current liabilities		**(136,892)**	(137,872)
Total liabilities		**(166,067)**	(160,799)
Net assets		**652,756**	577,337
Capital and reserves			
Capital Account		**643,394**	575,689
Capital hedging reserve	*17*	**7,551**	448
Revenue Account		**3,127**	3,127
Retirement benefit reserve		**(1,316)**	(1,927)
Total reserves		**652,756**	577,337

Sir Alan Reid GCVO
Nathan Thompson CVO

5 July 2022

The notes to the accounts on pages 31 to 61 are an integral part of these financial statements.

Statement of Changes in Capital and Reserves

	Note	Capital account		Revenue account		Total
		Capital reserve	Capital hedging reserve	Revenue reserve	Retirement benefit reserve	
		£'000	£'000	£'000	£'000	£'000
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**
Net surplus for the year		63,973	–	23,966	–	**87,939**
Other comprehensive income:						
Net gain from fair value adjustment on other property	*13*	71	–	–	–	**71**
Net gain on the revaluation of financial assets	*14*	3,661	–	–	–	**3,661**
Gain on financial derivatives		–	7,103	–	–	**7,103**
Actuarial gain on retirement benefit obligations	*19*	–	–	–	611	**611**
Less amounts payable to the Privy Purse		–	–	(23,966)	–	**(23,966)**
Balance as at 31 March 2022		**643,394**	**7,551**	**3,127**	**(1,316)**	**652,756**

Statement of Cash Flows

	Note	Year ended 31 March 2022 £'000	Year ended 31 March 2021 £'000
Cash generated from operating activities	*21*	**25,683**	19,485
Interest paid		**(2,179)**	(2,431)
Net cash from operating activities		**23,504**	17,054
Cash flows from investing activities			
Purchase and improvement of investment property	*12*	**(13,094)**	(13,852)
Purchase of financial investments	*14*	**(4,476)**	(5,883)
Purchase of property, plant and equipment	*13*	**(18)**	(19)
Proceeds from disposal of investment properties		**2,131**	10,817
Proceeds from disposal of financial investments		**4,960**	6,114
Financial investment income		**2,663**	2,382
Net cash outflow from investing activities		**(7,834)**	(441)
Cash flows from financing activities			
Payments made to the Privy Purse		**(20,775)**	(21,575)
Net cash outflow from financing activities		**(20,775)**	(21,575)
Decrease in cash in the year		**(5,105)**	(4,962)
Cash and cash equivalents at start of year		**19,475**	24,437
Cash and cash equivalents at end of year		**14,370**	19,475

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 64-65.

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 64-65 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
Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)	1 January 2021
Covid 19-Related Rent Concessions Beyond 30 June 2021 (Amendment to IFRS 16 Leases)	1 April 2021

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. As yet, none of these have been endorsed for use in the UK and will not be adopted until such time as endorsement is confirmed.

Standard	Effective date, annual period beginning on or after
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
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

Notes to the accounts (continued)

(a) Basis of accounting (continued)

Deferred Tax relating to Assets and Liabilities arising from a Single Transaction: Amendments to IAS 12 Income Taxes	1 January 2023
Definition of Accounting Estimates: Amendments to IAS 8	
Classification of Liabilities as Current or Non-Current: amendments to IAS 1	1 January 2024

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

(b) Significant judgements, key assumptions and estimates

Accounting estimates and judgements are continually evaluated and are based on past experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Duchy makes estimates and assumptions concerning the future. The resulting accounting estimates could, by definition, differ from the actual outcome.

The estimates and assumptions that have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are summarised as follows:

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 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.

Notes to the accounts (continued)

(c) Operating leases

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

(d) Valuation of property

Investment property 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 annually. 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

Notes to the accounts (continued)

(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 realisable quoted prices. Unquoted investments are shown at latest independent valuation. Any profit or loss is taken to the Capital Account Statement of Comprehensive Income.

(g) Depreciation

(i) In accordance with IAS 40 no depreciation is provided on investment properties.
(ii) Revenue fixed assets are fully depreciated in the year of purchase.

(h) Woodlands

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

(i) Recognition of income

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

(j) 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 for liabilities in the balance sheet.

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

(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.

Notes to the accounts (continued)

(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.

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 2021. The accounts of the Solicitor for the Affairs of the Duchy of Lancaster for the year ended 30 September 2021 are set out on page 63 for information purposes.

(o) Heritage assets

There is no International Financial Reporting Standard equivalent to UK GAAP included in FRS102. 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.

Notes to the accounts (continued)

(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.

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

	2022 **£’000**	2021 £’000
Income from Property		
Commercial	**19,214**	17,675
Agricultural	**5,847**	5,587
Residential	**2,659**	2,488
Strategic land	**475**	1,333
Mineral rents and royalties	**496**	425
Total	**28,691**	27,508

Notes to the accounts (continued)

3. Operating costs

	Repairs and other direct costs £'000	Repayments to Capital £'000	Total 2022 £'000	Total 2021 £'000
Expenditure on property				
Commercial	717	–	**717**	744
Agricultural	584	–	**584**	626
Residential	870	–	**870**	427
Mineral rents and royalties	–	88	**88**	60
	2,171	88	**2,259**	1,857
Staff costs, administration and professional fees	1,587	–	**1,587**	1,678
Total	3,758	88	**3,846**	3,535

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:

	2022 £'000	2021 £'000
Less than one year	**20,640**	21,122
Between one to two years	**17,885**	17,872
Between two to three year	**15,092**	15,039
Between three to four years	**11,652**	12,279
Between four to five years	**9,879**	9,687
After five years	**217,090**	201,749
	292,238	277,748

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

5. Finance income

	2022 £'000	2021 £'000
Interest on fixed interest stocks and unit trusts	**642**	600
Income from equities	**2,048**	1,787
Bank and other interest	**13**	33
Investment management fees	**(40)**	(38)
	2,663	2,382

Notes to the accounts (continued)

6. Finance costs

	2022	2021
	£'000	£'000
Loan interest	**2,179**	2,431

Capitalised finance costs that are included within purchases at cost in note 12 amount to £496,973 (2021: £365,458). The interest rate used to determine the borrowing costs eligible for capitalisation in the year was 1.95%.

7. Total comprehensive income for the year

	2022	2021
	£'000	£'000
Total comprehensive income for the year is arrived at after charging:		
Staff costs (note 8(a))	**3,006**	3,324
Depreciation of Property, Plant and Equipment	**18**	19
Auditors' remuneration		
– audit services	**38**	34
– non–audit services	**–**	11

Staff costs of £644,000 (2021:£652,000) 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:

	2022	2021
	£'000	£'000
Wages and salaries	**2,268**	2,504
Social security costs	**272**	322
Pension contributions	**466**	498
	3,006	3,324

(b) The average number of employees (excluding the Chancellor and non-executive Council members) during the year was 31 (2021: 30).

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 2022 £'000**	Total 2021 £'000
Rt Hon Stephen Barclay MP	–	–	–	–
Rt Hon Michael Gove MP	–	–	–	–
Sir Alan Reid GCVO	70	–	**70**	70
Sir Michael Stevens KCVO	–	–	**–**	–
Mr Nathan Thompson CVO	265	2	**267**	267
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)	15	–	**15**	6
Mrs Jill May (appointed 24 Feb 2022)	2	–	**2**	–
Ms Lucy Macdonald (appointed 24 Feb 2022)	2	–	**2**	–
Miss Kathryn Matthews (retired on 31 Dec 2021)	14	–	**14**	18
Mr Christopher Adcock LVO (retired on 30 Apr 2021)	–	–	**–**	165
Mr Robert Miles QC (retired on 1 May 2020)	–	–	**–**	2

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

	2022	2021
Between £85,001 and £90,000	**1**	1
Between £45,001 and £50,000	**–**	–
Between £35,001 and £40,000	**–**	–
Between £20,001 and £25,000	**–**	–

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

	2022 £'000	2021 £'000
Mr Nathan Thompson CVO	**34**	34
Mr Christopher Adcock LVO (retired on 30 Apr 2021)	**–**	21

Notes to the accounts (continued)

9. Net proceeds from bona vacantia

	2022 £'000	2021 £'000
Proceeds from bona vacantia	**7,845**	7,437
Provisions for late claims transferred to Late Claims Fund	**(724)**	(2,219)
	7,121	5,218
Costs of palatinate administration and historical obligations (note 10)	**(2,704)**	(3,218)
	4,417	2,000

A £900,000 charitable donation (2021: NIL) was made to the Duke of Lancaster Housing Trust arising from the surplus receipts of bona vacantia.

A charitable donation of £100,000 (2021: £756,500) 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

	2022 £'000	2021 £'000
Administration of bona vacantia – costs met directly by the Duchy	**154**	130
Upkeep of castles and historic monuments	**2,183**	3,167
Rental and other income from castles	**(4)**	(4)
Savoy Chapel – stipends, running costs and repairs	**43**	(385)
Ceremonial, ancient stipends, charitable annuities and preservation of historic records	**291**	252
Administration of Duchy of Lancaster charitable funds	**37**	58
	2,704	3,218

Notes to the accounts (continued)

11. Analysis of Balance Sheet

	Revenue		Capital	
	2022	2021	**2022**	2021
	£'000	£'000	**£'000**	£'000
Assets				
Non–current assets				
Investment property	**–**	–	**712,660**	638,457
Property, plant and equipment	**–**	–	**5,536**	4,914
Financial assets	**1,784**	1,882	**73,957**	69,952
Interest rate swaps	**–**	–	**7,551**	448
Total non–current assets	**1,784**	1,882	**799,704**	713,771
Current assets				
Trade and other receivables	**2,965**	3,008	**–**	–
Cash and cash equivalents	**12,175**	7,557	**2,195**	11,918
Balances due from Capital	**12,924**	12,138	**–**	–
Total current assets	**28,064**	22,703	**2,195**	11,918
Total assets	**29,848**	24,585	**801,899**	725,689
Liabilities				
Current liabilities				
Trade and other payables	**(28,145)**	(22,513)	**(1,030)**	(414)
Balances due to Revenue	**–**	–	**(12,924)**	(12,138)
Total current liabilities	**(28,145)**	(22,513)	**(13,954)**	(12,552)
Non–current liabilities				
Borrowings	**–**	–	**(137,000)**	(137,000)
Provisions	**(784)**	(884))	**–**	–
Retirement benefit obligations	**892**	12	**–**	–
Total non–current liabilities	**108**	(872)	**(137,000)**	(137,000)
Total liabilities	**(28,037)**	(23,385)	**(150,954)**	(149,552)
Net assets	**1,811**	1,200	**650,945**	576,137
Capital and reserves				
Revenue Account	**3,127**	3,127	**–**	–
Capital hedging reserve	**–**	–	**7,551**	448
Capital Account	**–**	–	**643,394**	575,689
Retirement benefit reserve	**(1,316)**	(1,927)	**–**	–
Total reserves	**1,811**	1,200	**650,945**	576,137

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 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**

	Commercial and indirect property investment £'000	Agricultural woods minerals foreshores £'000	Residential £'000	Land held for development £'000	Total £'000
Value at 31 March 2021	367,204	188,180	62,822	20,251	638,457
Purchases at cost	8,484	644	1,093	2,873	13,094
Transfers to owner occupied property	–	–	(551)	–	(551)
Disposals	–	–	(155)	(519)	(674)
Change in fair value	43,291	10,638	3,098	5,307	62,334
Value at 31 March 2022	**418,979**	**199,462**	**66,307**	**27,912**	**712,660**

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 £10,221,000 (2021: £13,479,000). Sales proceeds are net of expenses of sale and development costs charged from Revenue.

At 31 March 2022 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 2022 by valuer is as follows:

Knight Frank	58%
Savills	42%

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	141,834	153,945	174,206
Other rural assets	2,557	2,488	2,454
Urban commercial	370,289	412,440	470,453
Rural commercial	35,883	18,161	39,891
Residential property	63,178	63,824	64,278

Impact on fair value of changes to market rental values

	Increase of 10% £'000	As disclosed £'000	Decrease of 10% £'000
Urban commercial	451,949	412,440	378,698

Notes to the accounts (continued)

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

	Property type	Fair value at 31 March 2022 £'000	Valuation techniques	Unobservable inputs	Range of unobservable inputs (where meaningful)
Agricultural & forestry	Agricultural	153,945	Yield methodology	Rental values Capitalisation rate	– Farms: 0.93% to 2.41%
					Bare land: 1% to 2%
			Adjusted sales comparison approach	Farmland vacant possession values	£1,237/ac to £11,177/ac average £7,526/ac
				Discount rate for terminal value	4.5% to 5%
				Estimate of period until vacant possession achieved	0 to 29 years (average 1.09 years)
	Forestry	11,005	Adjusted sales comparison approach	Forestry vacant possession values	£1,050/ac to £4,141/ac average £3,490/ac
	Sporting	3,433	Yield methodology	Rental values Capitalisation rate	0.5% to 10% (average 9.01%)
	Foreshore	22,438	Yield methodology	Rental values Capitalisation rate	6.52% to 10.14% (average 9.7%)
	Mineral	2,551	Yield methodology	Rental values Capitalisation rate	7.5% - 8.5%
	Development land	27,912	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	2,488	Yield methodology	Rental values Capitalisation rate	– 3.33% to 3.33% (average 5.7%)
			Adjusted sales comparison approach	Adjusted comparable vacant possession values	£553/acre to £79,000/acre
	Total	**223,772**			
Commercial	Urban commercial	412,440	Yield methodology	Rental values	Industrial : £4.25 to £24.00 psf Office : £12.50 to £82.50 psf Retail: £13.56 to £200.0 psf
				Capitalisation rate	Industrial : 3.75% to 7.00% Office : 3.00% to 9.25% Retail: 4.50% to 7.00% Other: 3.50% to 10.0%
	Rural commercial	18,161	Yield methodology	Rental values	–
				Capitalisation rate	3.92% to 10.95% (average 8.83%)
	Total	**430,601**			
Residential	Rural residential	63,824	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 0.97 years)
	Total	**63,824**			

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 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**

	Owner Occupied Property £'000	Motor Vehicles £'000	Plant & Equipment £'000	Total £'000
Cost or valuation				
Balance at 1 April 2021	4,914	17	386	5,317
Additions during the year	–	–	18	18
Change in fair value	71	–	–	71
Transfers from Investment property	551	–	–	551
Balance at 31 March 2022	**5,536**	**17**	**404**	**5,957**
Accumulated depreciation				
Balance at 1 April 2021	–	17	386	403
Charged during the year	–	–	18	18
Balance at 31 March 2022	**–**	**17**	**404**	**421**
Net Book Value				
31 March 2022	**5,536**	**–**	**–**	**5,536**

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 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)
(Loss)/gain 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**
Purchases	509	3,967	–	4,476	–	4,476
Sale proceeds	(512)	(3,935)	(513)	(4,960)	–	(4,960)
Gain on sale	71	466	291	828	–	828
Change in fair value	736	3,214	(289)	3,661	(98)	3,563
Value at 31 March 2022	**13,373**	**59,410**	**1,174**	**73,957**	**1,784**	**75,741**

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 at designated 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 in 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 'finance 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 £408,000 were charged in the year (2021: £386,000). These fees are charged to the capital of the investment funds.

Notes to the accounts (continued)

15. Trade and other receivables

	2022 £'000	2021 £'000
Trade receivables (rents)	**1,222**	1,286
Other receivables	**359**	361
Prepayments and accrued income	**1,384**	1,361
	2,965	3,008

As of 31 March 2022 trade receivables of £1,222,000 (2021: £1,286,000) were due but not impaired.

The ageing analysis of these trade receivables is as follows:

	2022 £'000	2021 £'000
Under 3 months	**1,149**	1,086
3 to 12 months	**59**	112
Over 12 months	**14**	88

The ageing of impaired receivables is as follows:

	2022 £'000	2021 £'000
Under 3 months	**235**	426
3 to 12 months	**300**	561
Over 12 months	**56**	31

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:

	2022 £'000	2021 £'000
At 1 April	**1,018**	372
Provision for receivables impairment	**(61)**	663
Receivables written off	**(366)**	(17)
At 31 March	**591**	1,018

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 debtor's 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

	2022 £'000	2021 £'000
Amounts falling due within one year:		
Trade payables	**2,029**	1,929
Other taxes and social security	**342**	772
Other payables	**2,558**	2,149
Late claims provision	**1,000**	1,000
Accruals and deferred income	**6,229**	6,668
Due to the Privy Purse	**4,766**	1,575
Due to Duchy of Lancaster charitable funds and historical obligations	**12,251**	8,834
	29,175	22,927

17. Borrowings

	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)**

	Less than 1 year £'000	1 to 5 years £'000	Over 5 years £'000	2022 Total £'000
Borrowings	–	42,000	95,000	**137,000**
Interest rate swaps	–	(2,100)	(5,451)	**(7,551)**

The total borrowings of £137m consists of 6 loans with the following terms;

- Loan of £5.0m repayable October 2025, interest in the year is at a floating rate, £2.5m of the loan has been swapped to a fixed rate of 3% and £2.5m of the loan has been swapped to a fixed rate of 1.93%.
- Loan of £37.0m repayable September 2026, interest in the year is at a floating rate, £18.5m of the loan has been swapped to a fixed rate of 1.96% and £18.5m of the loan has been swapped to a fixed rate of 1.97%.
- 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 1.49%.
- 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 1.94%.
- 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 Group performed a qualitative assessment of effectiveness and it is expected that the value of the interest rate swap contracts and the value of the corresponding hedged items will systematically change in opposite directions in response to movements in the underlying interest rates. The main source of hedge ineffectiveness in these hedge relationships is the effect of the counterparty and the Duchy's own credit risks on the fair value of the interest rate swap contracts, which is not reflected in the fair value of the hedged items attributable to the change in interest rates. No other sources of ineffectiveness emerged from these hedged relationships.

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 was recognised as a charge to the surplus on the capital account for that 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	
	2022 %	2021 %	2022 £'000	2021 £'000	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Less than 1 year	–	–	–	–	–	–	–	–
1 to 2 years	–	–	–	–	–	–	–	–
2 to 5 years	2.02	2.46	42,000	5,000	2,100	(169)	2,269	(169)
5 years +	1.92	1.93	95,000	132,000	5,451	617	4,834	617

The interest rate swaps settle on a quarterly basis. The floating rate on the interest swaps is SONIA. 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:

	2022 £'000	2021 £'000
Provisions for late claims received from the bona vacantia account	**724**	2,219
Decrease in value of investments	**(98)**	(98)
Claims paid during the year	**(726)**	(2,217)
Deficit for the year	**(100)**	(96)
Late Claims Fund balance at 1 April	**1,884**	1,980
Late Claims Fund balance at 31 March	**1,784**	1,884

	2022 £'000	2021 £'000
Shown as:		
Included in Trade and other payables	**1,000**	1,000
Included in Non-current liabilities – provisions	**784**	884

Notes to the accounts (continued)

19. Retirement benefit obligations

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

	31 March 2022 % pa	31 March 2021 % pa
Discount rate	**2.6**	1.9
Inflation assumption (RPI)	**3.8**	3.3
Inflation assumption (CPI)	**3.3**	2.8
Rate of increase in pensions in payment	**3.3**	2.8
Rate of increase in pensionable salaries	**5.3**	4.8

Assumed life expectancies on retirement at age 60 are:

	31 March 2022	31 March 2021
Retiring today – males	**26.6**	26.5
Retiring today – females	**29.2**	28.7
Retiring in 20 years times – males	**27.7**	28.0
Retiring in 20 years times – females	**30.3**	30.3

The assets in the Scheme were:

	Value at 31 March 2022 £'000	Value at 31 March 2021 £'000
Gilts	**6,910**	5,662
Equities	**3,022**	3,887
Cash	**124**	135
Fair value of Scheme assets	**10,056**	9,684

The actual return on assets over the period was:

	Value at 31 March 2022 £'000	Value at 31 March 2021 £'000
Actual return on assets over the period	**679**	828

	2022 £'000	2021 £'000
Present value of funded obligations	**(9,164)**	(9,672)
Fair value of Scheme assets	**10,056**	9,684
Surplus in funded scheme	**892**	12
Present value of unfunded obligations	**–**	–
Unrecognised actuarial gains/(losses)	**–**	–
Adjustment in respect of asset ceiling and minimum funding requirement	**–**	–
Net surplus in balance sheet	**892**	12

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

	2022 £'000	2021 £'000
Benefit obligation at beginning of year	**9,672**	8,862
Current service cost	**17**	12
Interest cost	**178**	197
Contributions by Scheme participants	**1**	1
Net remeasurement (gain)/loss – financial	**(219)**	1,422
Net remeasurement loss/(gain) – demographic	**43**	(11)
Net remeasurement loss/(gain) – experience	**63**	(228)
Benefits paid	**(591)**	(583)
Past service cost	**–**	–
Benefit obligation at end of year	**9,164**	9,672

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

	2022 £'000	2021 £'000
Fair value of Scheme assets at beginning of year	**9,684**	9,148
Interest income on Scheme assets	**181**	207
Return on assets, excluding interest income	**498**	621
Contributions by employer	**377**	354
Contributions by Scheme participants	**1**	1
Benefits paid	**(591)**	(583)
Scheme administrative costs	**(94)**	(64)
Fair value of Scheme assets at end of year	**10,056**	9,684

Reconciliation of the effect of the asset ceiling

	2022 £'000	2021 £'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:

	2022 £'000	2021 £'000
Service cost – including current and past service costs and settlements	**17**	12
Service cost – administrative cost	**94**	64
Net interest on the net defined benefit liability	**(3)**	(10)
Total expense	**108**	66

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):

	2022 £'000	2021 £'000
Net remeasurement (gain)/loss – financial	**(219)**	1,422
Net remeasurement loss/(gain) – demographic	**43**	(11)
Net remeasurement loss/(gain) – experience	**63**	(228)
Return on assets, excluding interest income	**(498)**	(621)
Changes in the effect of the asset ceiling excluding interest income	**–**	–
Total remeasurement of net defined benefit asset/(liability) to be shown in OCI	**(611)**	562

Sensitivity analysis

	Impact on Scheme liabilities 2022	2021
Discount rate – decrease by 1.0% pa	**+13%**	+14%
Rate of inflation rate (CPI) – increase by 0.2% pa	**+2%**	+2%
Mortality (increase life expectancy by 1 year)	**+6%**	+6%

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 2021.

The liability model used for our calculations is the same as that used for the 2021 valuation, using the proposed IAS 19 assumptions and membership data updated to 31 March 2022.

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 2021 revealed a funding deficit of £1m. In the Recovery Plan dated 25 November 2021 the Duchy has agreed to pay contributions with the view to eliminating the shortfall by 31 March 2025.

The Duchy also pays contributions of £33,000pa 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 21 March 2022.

In accordance with the Schedule of Contributions dated 21 March 2022 the Duchy is expected to pay contributions of around £158,000 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 2024.

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 30% in return seeking assets (UK equities) and 70% 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 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 debtors	–	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

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 2022.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets				
Debt instruments at fair value through other comprehensive income (FVTOCI)	13,373	–	–	13,373
Investments in equity instruments designated at FVTOCI	60,584	1,784	–	62,368
Total recurring financial assets	73,957	1,784	–	75,741
Financial debtors				
Interest rate swaps	–	7,551	–	7,551
Total recurring financial debtors	–	7,551	–	7,551
Non–financial assets:				
Investment properties	–	–	712,660	712,660
Owner occupied properties	–	–	5,536	5,536
Total recurring non–financial assets	–	–	718,196	718,196

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 recognised in profit or loss attributable to assets held at the end of the reporting period	–	62,334	71	62,405

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

	2022 **£'000**	2021 £'000
Net surplus on Revenue account	**23,966**	22,265
Net surplus on Capital account	**63,973**	22,042
Adjusted for:		
Depreciation	**18**	19
Current service costs less contributions to pension scheme	**(269)**	(288)
Net finance (income)/cost	**(484)**	49
Decrease in valuation of other financial investments	**98**	98
Net gain from fair value adjustment on investment property	**(62,334)**	(22,576)
Gain on disposal of investment property	**(1,434)**	(4,200)
Net gain on the disposal of financial assets	**(828)**	(108)
Decrease in receivables	**43**	1,189
Increase in payables	**2,934**	995
Net cash inflow from operating activities	**25,683**	19,485

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 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)	–	-	6,293	–	448
Borrowings	(137,000)	–	–	–	–	(137,000)
	(118,408)	**(4,962)**	**–**	**6,293**	**–**	**(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)**

	1 April 2021 £'000	Cash flow £'000	Acquisitions and disposals £'000	Fair value gains and losses £'000	Interest charge £'000	31 March 2022 £'000
Cash and bank balances	19,475	(5,105)	–	–	–	14,370
Interest rate swaps	448	–	–	7,103	–	7,551
Borrowings	(137,000)		–	–	–	(137,000)
	(117,077)	**(5,105)**	**–**	**7,103**	**–**	**(115,079)**

	Non–current assets £'000	Current assets £'000	Current liabilities £'000	Non–current liabilities £'000	Total £'000
Cash and bank balances	–	14,370	–	–	14,370
Interest rate swaps	–	–	–	7,551	7,551
Borrowings	–	–	–	(137,000)	(137,000)
Balance at 31 March 2022	**–**	**14,370**	**–**	**(129,449)**	**(115,079)**

Notes to the accounts (continued)

22. Related party transactions

£900,000 charitable donations were made made to the Duke of Lancaster Housing Trust (2021: £NIL) arising from the surplus receipts of bona vacantia.

A charitable donation of £100,000 (2021: £756,500) 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.

Members of Council also act as trustees for the charities supported by the surplus receipts of bona vacantia.

In the year to March 2021, payments of £7,132 (2022: £Nil) 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 market based salary.

23. Financial risk management

A review of the Duchy's financial risks is set out in the Strategic Report on pages 15 to 19.

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 2022, 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 £74m 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	–	42,000	95,000	137,000
Net interest payable on swaps	–	(2,100)	(5,451)	(7,551)
Trade and other payables	21,604	–	–	21,604
At 31 March 2022	**21,604**	**39,900**	**89,549**	**151,053**
At 31 March 2021	14,487	5,169	131,383	151,039

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 2022 the Duchy had entered into contracts for major improvement works in respect of various refurbishments that gave rise to capital commitments totalling £1,255,828 (2021:£7,083,000).

Duchy of Lancaster Rural Surveys

The Duchy of Lancaster Rural Surveys totalling approximately 18,100 hectares are located as follows:

	Hectares
The Staffordshire Survey	**2,994**
Needwood estate	
The Cheshire Survey	**1,399**
Crewe estate	
Marbury estate	
The Lancashire Survey	**3,941**
Whitewell estate	
Myerscough estate	
Wyreside estate	
Salwick estate	
The Yorkshire Survey	**6,098**
Cloughton estate	
Pickering estate	
Marishes estate	
Goathland estate	
Pontefract estate	
The Southern Survey	**3,649**
Higham Ferrers estate	
Castleton estate	
Ogmore estate	
Lincolnshire estate	
	18,081

Accounts of the Solicitor for the Affairs of the Duchy of Lancaster for the year ended 30 September 2021

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 157 intestate estates (2020: 199) and 1,197 dissolved companies (2020: 1,328) were formally reported.

Income and expenditure account for the year ended 30 September 2021

	2021 £
Income	
Monies received from dissolved companies	**7,145,937**
Monies received from intestate estates	**2,949,334**
Interest and other	**505**
Monies received	**10,095,776**
Expenditure	
Payments to next of kin	**(716,900)**
Company restoration	**(837,143)**
Ex–gratia payments to claimants	**(211,806)**
Administration costs	**(698,818)**
Net income less expenditure	**7,631,109**
Paid to the Duchy of Lancaster	**(5,615,553)**
Net surplus for the year ended 30 September 2021	**2,015,556**
Cash balances at 1 October 2020	**7,752,104**
Net surplus for the year ended 30 September 2021	**2,015,556**
Cash balances at 30 September 2021	**9,767,660**

Balance sheet as at 30 September 2021

	2021 £
Current assets	
Cash and deposits	**9,767,660**
	9,767,660
Current liabilities	
The Duchy of Lancaster	**(4,158,197)**
Other creditors	**–**
	(4,158,197)
Total assets less current liabilities	**5,609,463**
Representing:	
Estates under administration	**5,609,463**

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 2022

www.duchyoflancaster.co.uk

This Report & Accounts is printed by Witherbys Print London which holds the ISO 14001:2015 Environmental Management certification.

The printing inks are made using vegetable-based oils. 95% of the cleaning solvents are recycled for further use, and 94% of the waste associated with this product will be recycled.

The paper used for this publication is FSC® certified from sustainable sources.

MIX
From responsible sources
FSC® C007073
FSC
www.fsc.org