DUCHY of LANCASTER

Report and Accounts

Year ended 31st March 2023

Preserving the past, investing for the future

Her Late Majesty
Queen Elizabeth II
Duke of Lancaster
1952-2022

On 8th September 2022, as Buckingham Palace announced the sad death of Queen Elizabeth II, the entire Duchy family joined with the rest of the world in mourning the loss of our former Sovereign.

The Late Queen's many visits to the Duchy of Lancaster estates over the years were hugely appreciated by Her tenants, by whom She was dearly and sincerely loved. Everyone involved in the Duchy will remember not only Her exceptional life of service, but Her warmth, wit and genuine interest in their daily lives with enormous fondness and grateful thanks.

Queen Elizabeth II served as Duke of Lancaster, as well as Monarch, for over 70 years, making Her the nation's longest serving Duke of Lancaster. On His accession to the throne, King Charles III automatically took over the role.

We now look forward to working with the new Duke in the years ahead to shape and develop our estates in line with His Majesty's vision for a more sustainable and environmentally responsible stewardship of the natural world for the benefit of this and future generations.

DUCHY of LANCASTER

Annual Report

Report and accounts of the Duchy of Lancaster for the year ended 31 March 2023

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. It has been the personal estate of the reigning Monarch since 1399 and is held separately from all other Crown possessions. On 8th September 2022, as He acceded to the throne, ownership of the Duchy passed from Her Late Majesty Queen Elizabeth II to His Majesty King Charles III.

The ancient inheritance known as the Duchy of Lancaster 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 44,748 acres 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 in England and Wales.

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.

Edmund's inheritance passed to his son Thomas, Earl of Lancaster

His Majesty King Charles III, Duke of Lancaster.

Lancaster Castle prepares to celebrate the coronation of King Charles III

Introduction *continued*

Henry Grosmont, 1st Duke of Lancaster (1351)

John O'Gaunt, 2nd Duke of Lancaster (1362)

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 and the discharge of the Duchy's administrative duties to the Duchy Council. Members of Council are

Introduction *continued*

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 His Majesty The King as Duke of Lancaster. His Majesty voluntarily pays tax on all income received from the Duchy, as His mother Her Late Majesty Queen Elizabeth II did before him.

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 and supporting the 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.

Duchy of Lancaster offices, Lancaster Place, London.

Cypher of King Charles III, Duke of Lancaster (2023)

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 3,457 acres 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 3,380 acres, stretching from the edge of the town to the M6 at Junction 16.

There are 10 main farms on the estate which are involved in dairy, arable and livestock production as well as equestrian businesses and woodlands. At Crewe Hall Farm, the Duchy has created a highly sought-after business address, with a number of companies in flexible office suites of varying sizes surrounded by views of the open countryside.

Crewe Estate, Cheshire.

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 development opportunities.

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

• Lancashire

The Lancashire Survey extends to 9,743 acres 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 1,428-acre 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 1,179-acre Salwick estate is predominantly farmland, but includes around 37 acres

The Surveys *continued*

Whitewell Estate, Lancashire

Foreshore

The Duchy of Lancaster's ancient foreshore runs from the River Mersey in the south, to Barrow-in-Furness in the north 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.

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 6,370 acres, 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 766 acres, 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 9,023 acres. Since 2015, the Southern Survey has grown by 50 per cent. Four acquisitions over 2012 to 2016 have increased our total land holding in Lincolnshire to 2,595 acres 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.

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 306 acres 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 1,988 acres, 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 4,065 acres of common land and includes an active limestone quarry, a castle and a championship golf course at Southerndown. The remaining 69 acres are made up of smaller land holdings across the Southern Survey which include further castles at Bolingbroke, Halton and Tickhill.

Needwood Estate, Staffordshire.

• Staffordshire

The Staffordshire Survey comprises the 7,398 acre 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 42 arable, dairy, sheep and beef farms, 51 residential properties and 53 commercial, sporting and miscellaneous lettings. The commercial interests across the estate are diverse and range from specialist equestrian centres and liveries to shooting and fishing licences, live/work units and a private airfield.

In 2015, the Duchy entered into a ten-year woodland management plan to improve the quality of over 2,235 acres 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 15,127 acres across four main estates: Cloughton, Goathland, Pickering and Pontefract.

Cloughton is made up of 2,375 acres 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 eight 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 9,521-acre 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 2,854-acre estate includes 736 acres of mixed forestry.

The 378-acre 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, the South East, the Midlands and the North West.

The Savoy estate in London is the single largest asset block in the Urban portfolio, comprising office and retail space. It is bounded to

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.

Goathland Estate, Yorkshire

The Surveys *continued*

View of the River Thames from the Savoy Estate.

Roof top terrace at SavoyStrand.

Pollinator-friendly planting on roofs.

Shower and cycle storage facilities.

the north and south by the Strand and Embankment respectively and to the west and east by the Savoy Hotel and Somerset House.

The estate 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 the Strand.

Employers are increasingly looking for best-in-class offices to attract and retain staff. This has led to the installation of well-being facilities in our most recent office developments, including the refurbishment of SavoyStrand, which includes open air roof terraces and high quality shower and cycle storage facilities. The development completed in March 2022 and is fully let to eight commercial tenants.

The wider portfolio includes a 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.

Strategic Development

The Duchy is mindful of the shortage of high quality and affordable living accommodation available to local people in rural communities and we are keen to support the design and delivery of development schemes which are sympathetic to the natural landscape, while complementing the character of the surrounding environment.

With that in mind, we continue to work with the relevant local authorities to address the need for good quality housing in line with the local plan process. When considering any such development proposals, the Duchy is committed to ensuring high 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.

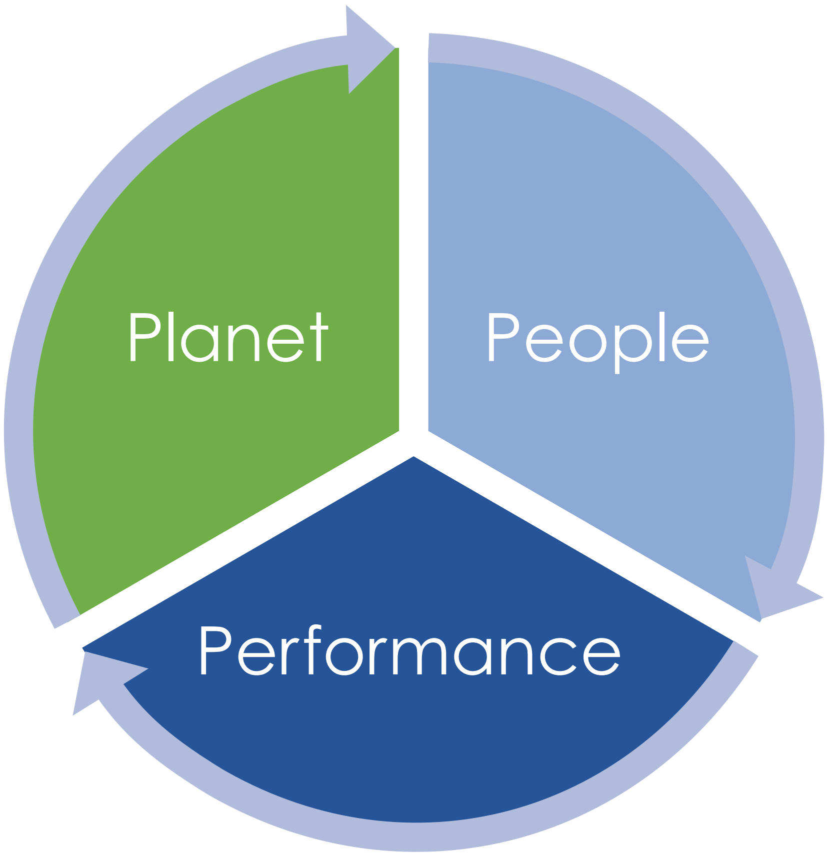
Our investment policy follows the advice and professional recommendations of third party investment consultants and fund managers. Decisions are made on the basis of appropriate asset allocation.

Our Sustainability Journey

We have continued to progress our sustainability journey in earnest this year. We have committed to ensuring that the Duchy is operational net zero by 2028 and fully net zero before 2050.

To help us communicate our key sustainability objectives to our staff, tenants and the local communities on and around Duchy property, we have articulated our ambitions under three main headings: **Planet, People** and **Performance**. This will provide us all with a common understanding of, and commitment to, the journey we are undertaking and the overarching principles of our common ambitions.

We have identified three core objectives under each of these thematic headings and are developing a series of actions and metrics as part of a sustainability programme to help guide our actions:



Our Sustainability Journey *continued*

• Planet

- Ensure the business is operational net zero (Scopes 1 & 2) in terms of carbon emissions by 2028 and fully net zero (Scopes 1, 2 & 3) before 2050
- Protect the balance of nature and restore the health of our soils across the estates.
- Reduce waste, avoid pollution to air, water and soil, and increase the proportion of reused or recycled material used across the estates.

• People

- Drive a common understanding of and commitment to our sustainability journey among staff, tenants, partners and other stakeholders
- Create sustainable and socially cohesive living and working environments for Duchy tenants and their communities
- Support the health and wellbeing of our staff, tenants, partners and other stakeholders.

• Performance

- Work with supply chains whose credentials, aims and objectives are aligned with our own objectives and values
- Make environmental performance and commitment to the principles of the Terra Carta a prerequisite to new leases, applications for funding and/or financial support and investment
- Invest in the delivery of all other objectives by embedding the principles of sustainability and responsible asset management across all areas of the business.

We will continue our work to embed these ambitions in all areas of the Duchy's work in the year ahead, reporting progress in next year's Report and Accounts. We recognise the urgency of sustainability action and the scale of the challenge, but we are confident that we are on the right trajectory and will be able to build on the foundations now in place.

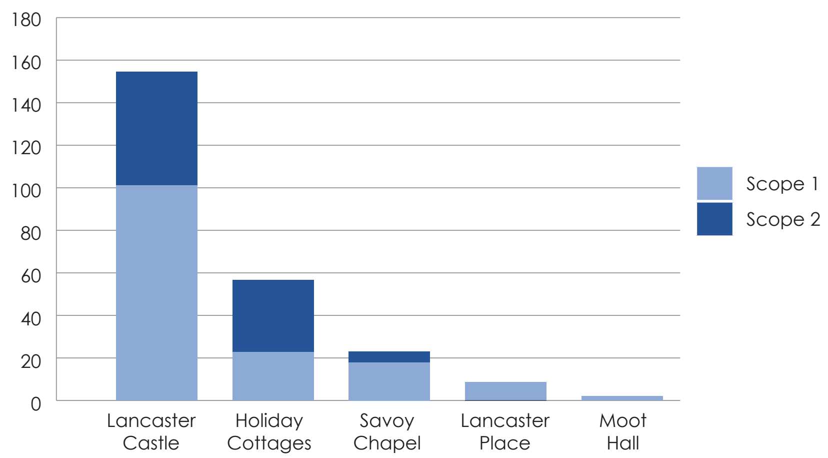
Our Sustainability Journey *continued*

Climate Action

This year, the focus has been on establishing a greenhouse gas emissions baseline for the organisation to help us map our progress. The Duchy's Scope 1 & 2 greenhouse gas emissions (together termed our operational emissions) are presented in line with the Streamlined Energy and Carbon Reporting (SECR) guidelines. In the past year, we established a baseline using data from 2021/22 and are also presenting data from the most recent reporting year. In the coming period we will continue to improve our emissions data tracking and define actions that will further reduce our operational emissions, as well as start to establish a baseline for our Scope 3 emissions.

Carbon Statement[1]	**2022/2023 tCO_2e**	**Baseline 2021/2022 tCO_2e**
Scope 1 Energy used in property	118	145
Scope 1 Travel – business	5	16
Scope 2 Energy used in property	5	5
Total Emissions	**128**	**166**
Intensity factor $kgCO_2e/m^2$	**29**	**37**
Intensity factor tCO_2e/ FTE	**4**	**5**
Energy used in properties		
Gas – gross	101	122
Electricity - gross	120	101
Avoided emissions[2]	(115)	(96)
Heating oil and diesel fuel	17	23
Total	**123**	**150**

2022 Baseline Gross Emisssions per property tCO_2e



[1] This Carbon Statement presents the carbon emissions data from the activities and assets under the ownership and direct management of the Duchy. The communal areas of Wellington House and Savoy Strand buildings that are tenanted have not been included in Scope 2 at this time but will be when the Scope 3 figures are available. The electricity used in these areas is REGO as below.

[2] Electricity emissions savings are achieved through the purchase of renewable electricity tariffs, Renewable Energy Guarantee of Origin (REGO) Certificates.

Highlights of 2022-23

Responsible Farming

We are nearing agreement with a number of our farming tenants on a shared Memorandum of Understanding which seeks to protect the natural capital of the Duchy estates and align our tenants' sustainability objectives with our own overarching ambition and vision for the future. Our ambition is for all farm tenants to agree such Memoranda with us.

While each is specific to a particular farm, every Memorandum sets out our commitment to regenerative farming practices, including minimal tillage cultivation, cover cropping, hedgerow restoration and the development of pollinator-friendly field margins. They promote knowledge-sharing and the exchange of best practice exemplars to help us protect the rich biodiversity and wildlife habitats which exist across the estates and encourage the active participation of our farming tenants in appropriate environmental stewardship schemes.

We will continue to work with our farming tenants in the year ahead to develop these Memoranda where applicable and will also begin to incorporate plans for sustainable water management, carbon capture and the use of eco-friendly energy sources wherever possible. Our common aim is to ensure farming practices support the long-term health of nature and productivity of the land in order to protect and preserve our rural estates for future generations.

Restoring historic hedgerows

Following the biodiversity audit of our rural estates carried out in partnership with Natural England and the Game & Wildlife Conservation Trust (GWCT) in 2016, we have been focusing on ways of improving and enhancing our hedgerows.

In the last year, the team has audited all of the hedgerows across the Duchy of Lancaster's Lancashire estates. This showed that, while a number of hedges had been restored by tenants and new planting had been completed, there were still gaps in evidence. We were keen to fill in these gaps and increase the range of natural habitats and breadth of biodiversity present across the estate.

Working with the Area of Outstanding Natural Beauty (AONB) team responsible for administering the Farming in Protected Landscapes (FiPL) scheme in the Forest of Bowland, we set up the Whitewell Hedge Restoration Project. The aim was to restore our hedgerows through the 'gapping up' of existing hedges, while also enhancing the natural landscape of the estates with the planting of new hedgerows where appropriate.

Highlights of 2022-23 *continued*

Having mapped the areas we considered to be most in need of attention, the team then shared the detail with tenants farming at Whitewell, inviting them to put forward any additions they would like to see included.

A total of 3.4 kilometres of new hedges have been successfully planted across the estate to date, using a mix of indigenous species, including hawthorn, hazel, holly, dog rose, crab apple, honeysuckle and guelder rose. We have chosen to use biodegradable shrub shelters in place of more conventional plastic guards as part of our drive towards improving environmental performance.

Sustainable Woodland Management

We continue to manage the woodlands across our estates in line with national standards and recommended best practice. Sensitive harvesting of timber has been successfully completed at Pickering Woods in Yorkshire. Continuous Cover Forestry has been maintained after the thinning on steep banks to protect much-loved public rights of way and scenic views from the nearby historic railway line.

In Lancashire, we are working on a programme of woodland creation to enhance the Area of Outstanding Natural Beauty that is the Forest of Bowland and the Duchy's Whitewell Estate. Moving away from hard-edged conifer plantations, productive broadleaves are proposed for circa 75 acres. The design is being informed by ecological surveys which have been conducted this Spring. We are working collaboratively with Natural England and Forestry Commission to ensure these proposals meet all appropriate environmental and ecological objectives.

On the Crewe Estate in Cheshire, we are diversifying our woodland to replace over-mature stocks of poplar with English cricket bat willow *(Salix Alba Caerulea)*. This is a fast-growing native species which takes around 20 years to fully mature. The resultant timber is uniquely suited to cricket bat manufacture, as it is light-weight and, although categorised as a hard wood, also has some of the properties of soft wood. Coppicing works will be undertaken at the edges of the site, together with the planting of interspersed broadleaf trees at the boundaries to improve the biodiversity of the woodland.

A series of Statutory Plant Health Notices have been issued in Lancashire and Cheshire, where Larch trees are being affected by a fungal pathogen called Phytophthora ramorum. These call for a selective felling programme, which has been a challenge due to current conditions in the softwood timber market. We anticipate that there will be further SPHN notices across the estates in future years which we will take forward to protect the long-term health of our woodland operations.

Highlights of 2022-23 *continued*

Improving the resilience of our trees and woodlands to existing and new plant health risks is a critical element of our sustainable woodland management. Over 6,000 new trees made up of 10 species were planted at Greaves Wood on our Needwood Estate in Staffordshire during the winter months to restock areas felled due to Ash-dieback disease. Further felling and restocking is programmed for 2023/24 linked to Ash and disease management, where the Forest Banks woodland and SSSI has an agreed Forestry Commission Tree Health Grant in place. This additional area could see up to 16,000 new trees planted across the Forest Banks and Marchington woodlands, re-setting the structure and age class of these woods to increase their long-term resilience and support further biodiversity gains.

Protecting Biodiversity

A rare species of butterfly which ten years ago could only be seen on the chalk downlands of Southern England is currently flourishing on our Pickering estate in Yorkshire. In 2011, a small sample of the intricately marked Duke of Burgundy butterfly was discovered in Pickering Woods by a local conservation group. They immediately reported the find to the Duchy, who responded by agreeing to remove a number of newly planted deciduous trees in order to prevent the small colony becoming 'shaded out' as the trees grew. The original clearing was then enlarged and extended by the creation of a widened forestry ride and coppicing undertaken in a nearby area of woodland. We were delighted to discover five years ago that this site had also been colonised and the numbers on both the original 'Plantation site' and the newer 'Coppice site' have been gradually increasing ever since.

We have now introduced our own woodland stewardship scheme focused on driving biodiversity gain across each of the two sites. As part of this initiative, the local branch of the Butterfly Conservation group is seeking to identify suitable areas for new colonies and we will work with volunteers to create one hectare of new coppice clearings over a three-year period.

We hope that this project will be successful in extending the number of occupied Duke of Burgundy sites and consolidate the recovery of the butterfly from extinction in the North Yorkshire Moors.

Rural Restoration

The Duchy of Lancaster Design Guide originally compiled in 2018 to establish a quality standard for our rural restoration and commercial refurbishment projects has been revised to incorporate more energy efficient and environmentally friendly options. The sustainable Guide, which specifies the building materials, fittings and furnishings to be used in order to improve the energy performance of our properties, as well as looking at reducing our overall carbon footprint, has been very positively received and is already yielding tangible results.

Cloughton village lies at the heart of our Cloughton Estate and forms part of the Duchy's ancient inheritance in Yorkshire. The High Street comprises 18 Duchy-owned residential properties, each clearly identified by the dark blue colour of the front doors. Number 50 is a traditional stone-built property built circa 250 years ago. It was previously home to a long-standing Duchy tenant who used to farm on the Cloughton Estate. This tenant left to downsize, allowing for the

Highlights of 2022-23 *continued*

restoration of the property prior to re-letting. Due to the age of the building, however, its energy efficiency performance was poor (EPC rating: F). The team therefore took the opportunity to introduce a number of the improvements suggested in the more sustainable version of the Design Guide and as a result brought the energy efficiency of the building up to a new EPC rating of C.

On practical completion of the refurbishment, we invited Diane Hubbard of Green Footsteps to carry out an independent assessment of the project. Diane congratulated the team on 'a really interesting low carbon retrofit' and recommended it as an exemplar project for future refurbishments of historic properties. The team is now working with Diane to quantify and demonstrate the carbon saving achieved during construction (in-use and embodied), so that we can apply this learning to future restoration projects.

Industrial Refurbishments

We have also been looking at ways in which we can improve the energy efficiency of our commercial and industrial buildings, reducing our carbon footprint and protecting the wealth of natural habitats that exist across our estates.

We have recently received planning approval for a comprehensive refurbishment of Unit A at Tower Bridge Business Park which we expect to deliver the Duchy's first ever A+ EPC rating. The proposed scheme includes the installation of photovoltaic units on the roof, as well as electric vehicle charging points and new cycle storage facilities and showers to encourage more sustainable travel.

We are also proposing additional landscaping, including the planting of native species, installation of bird boxes and a 100% biodiversity net gain of our hedgerows. As part of the project, we will install 24 swift nesting bricks inset into the wall under the eaves in order to enhance the biodiversity and wildlife habitats of the area.

Strategic Report

Our Ambition

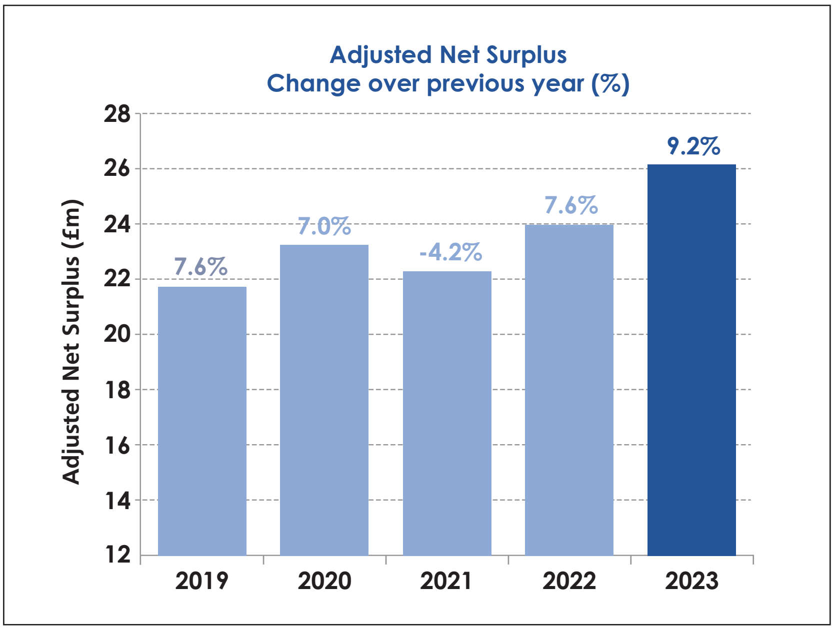
The Duchy's overarching objective is to become one of the most respected let landed estates in the country. We will achieve this by:

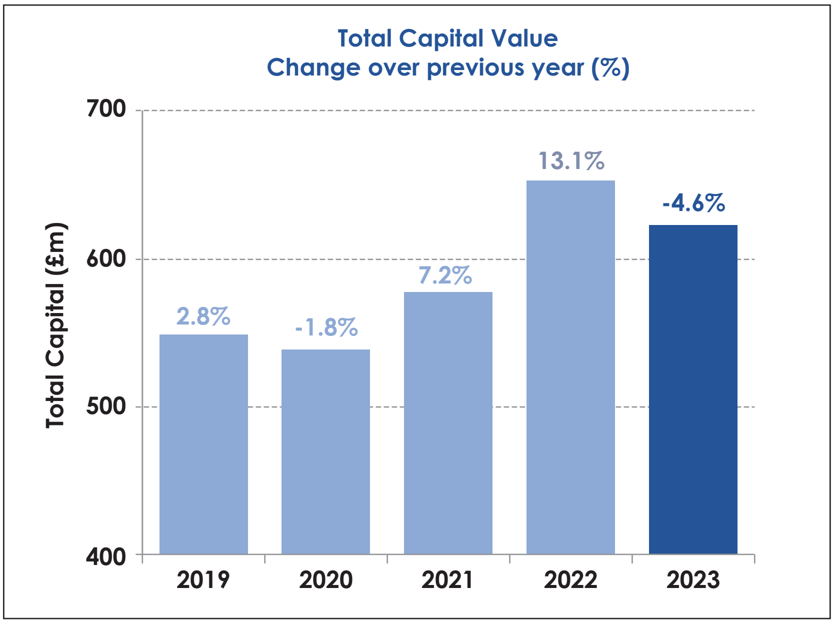
- Maintaining supportive and constructive tenant relationships
- Continuing our investment in restoration and maintenance
- Investing in our sustainability programme
- Protecting the surplus and value of the portfolio for future generations.

We have a detailed sustainability plan which addresses each of these objectives, encompassing biodiversity and soil management in our agricultural portfolio, reducing our own operational greenhouse gas emissions, addressing the energy efficiency of properties across our portfolio, expanding and improving the management of our woodlands, continuing community engagement and 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 17. Going forward, we will continue to improve our benchmarking and performance measures which will enable us to demonstrate and enhance the value of our activities and investment in these critical areas.

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





Strategic Report *continued*

Financial Review

The net surplus for the year, balance sheet and changes in net asset value are detailed on pages 29 to 33 of the accounts and in the related notes. The application of IFRS 16 - Leases to the Duchy's activities requires the recognition of income evenly over the period of a lease. At the beginning of a lease with a rent-free period this results in income being recognised which will not be invoiced until the rent-free period has ended and then reversed over the remaining period of the lease. In the current year the revenue recognised in accordance with IFRS 16 in relation to rent-free lease periods amounts to £2.049m and has been deemed by Council to not be distributable to the Keeper of the Privy Purse. Accordingly a non cash adjustment is included in the Revenue Account to arrive at Adjusted Net Surplus. No comparative figures are shown as the amount was not material in prior years.

- The net asset value has decreased by 1.8% to £641.2m (2022: £652.8m).

- The adjusted net surplus has increased in the year by 9.2% to £26.2m (2022: £23.9m).

Gross estate income (£31.4m) has grown 10.4% on the previous year. This is due to strong revenue growth from the Urban Survey which has increased 11% to £19.5m. In addition, agricultural and residential rents increased 3% over last year to £8.2m, with most of the growth coming from the residential portfolio where the refurbishment and restoration of assets led to improved rental values. Finally, there was strong growth in our Foreshore Survey, with rents at £2.6m.

The growth in the Net Surplus for the year reflects an increase in strategic development receipts coupled with increased IFRS 16 lease revenue following successful leasing across the Surveys. Whilst the Duchy has been successful in growing revenue, we remain acutely aware that many businesses and individuals are dealing with the lasting consequences of the pandemic, high inflation and increased energy costs.

Income from our financial portfolio remained flat following a year of strong growth to 31 March 2022. Our finance costs increased by £0.7m in the year as a consequence of increased interest payments on new debt and the cessation of capitalised interest costs following the completion of the SavoyStrand office development.

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

The value of our investment properties fell by £19.6m in the year, a decrease of 2.8% on a like-for-like basis after allowing for

Arable farming in Staffordshire

Wood-turning in Lancashire

Strategic Report *continued*

Apple blossom in bloom, Cheshire

Sheep farming at Myerscough, Lancashire

sales and capital expenditure. This is due to a 6.5% fall in commercial values caused by a deterioration of yields, partially offset by a 2.7% increase in valuation of the Duchy's agricultural assets driven by a continuing positive market for rental values in this sector. Over the year, the Duchy spent over £3m on redevelopment, permanent repairs and improvements to its land and property assets, plus costs associated with progressing opportunities with respect to development land. We received an aggregate of £6.7m from property sales and other capital receipts.

The value of the financial portfolio was broadly flat at £74.9m. Values increased in Q4 following dips in the earlier parts of the year as both bond and equity markets fell. Private Equity investments demonstrated strong growth of 10.6% in the year and overall, the financial portfolio generated a 3.3% return, significantly ahead of its performance benchmark.

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 £7.0m to £14.6m. Our hedging strategy has therefore delivered a much lower fixed cost of borrowing than might have been expected at current market rates. During the year, £5.0m of debt was repaid with the related swap cancelled, generating a capital receipt of £0.9m.

Liquidity and the Financial Portfolio

The Duchy has gross borrowings of £142m and continues to benefit from historically negotiated low interest rates, with an average cost of debt of 2.03% at 31 March 2023 which is fixed for the duration of the loans.

Council has approved guidance of borrowings of up to 25% of net assets and that ratio stands at 22.1%. Since the end of the financial year, we have drawn down the second £10m of the £20m obtained last year at a fixed rate of 3.05% over 30 years, which is well within the debt covenants. After this drawdown, we remain within our Council approved debt ratio. The £10m drawn will be applied against committed and forecast capital expenditure across the portfolio.

As well as generating income for the Duchy, the financial portfolio 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.

Strategic Report *continued*

Principal risks and uncertainties

Following the Covid-19 pandemic the UK economy has taken a considerable downturn with general inflationary pressures, higher energy costs and increased interest rates.

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 2023 reflects this success.

We have continued this level of engagement with our tenants as they have moved on from Covid to face a worsening economic environment with higher debt and energy costs. Whilst the economic outlook is now not as strong as it may have been in previous years, we remain cautiously optimistic that our assets will continue to perform well. We are also committed to continuing our journey towards creating an ever more sustainable business.

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 makes recommendations to the Council accordingly.

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

Economic Risk
The long-term impact of Covid-19, continuing high inflation and the subsequent economic downturn 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.

Strategic risk
Each year, the Duchy updates its 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 which has become more significant this year with increased interest rates and a worsening of the economy. 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.

His Majesty The King, Whitewell Estate, Lancashire

Mare Brook, Needwood Estate, Staffordshire

Strategic Report *continued*

Development risk
The Duchy has established a robust evaluation process from close monitoring of occupational markets, investment activity and construction pricing. Construction 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.

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

New Laund Farm, Whitewell Estate, Lancashire

Environmental risk
The risk register highlights the key environmental risks associated with the global threat of climate change which are reviewed annually along with mitigating controls and actions.

Cyber and data handling risk
Against a backdrop of ever increasing cyber risks being faced by all organisations the Duchy has continued to develop and deploy 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 His Majesty The King 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
4 July 2023

Report of Council

Review of Governance

Duchy Capital and Revenue

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

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

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

Church Livings

His Majesty The King is Patron of 42 Church Livings in Right of His 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 67-68. 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.

Silver matrix for Queen Elizabeth II's Duchy Seal

Surveyors' Reports, Duchy Archives, London

Report of Council *continued*

New woodland planting, Needwood Estate, Staffordshire.

Council of the Duchy of Lancaster

The Chancellor is responsible to His Majesty The King 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 His Majesty The King 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 2023 were:

- Sir Alan Reid GCVO (Chairman of the Council)
- Sir Michael Stevens KCVO (The Receiver General)
- Ms Sonia Tolaney KC (The Attorney General)
- Mr Nathan Thompson CVO (Chief Executive and Clerk of the Council)
- Mr Hugh Bullock
- Mr Marcus Rose (retired 31st December 2022)
- The Marquess of Downshire
- Ms Jill May
- Ms Lucy Macdonald
- Mr Alastair Martin (appointed 3rd January 2023)
- Mr Alistair Elliott (appointed 1st February 2023)

Report of Council *continued*

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 UK-adopted international accounting 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

Bluebells in woodland, Whitewell Estate, Lancashire

Report of Council *continued*

Long Aisle, The King's Chapel of the Savoy, London.

Quaker and prison reformer Elizabeth Fry, Lancaster Castle.

to comply with the requirements of the Code, Council nevertheless supports the principles and provisions set out in the Code and seeks to comply with 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, Urban and Strategic Development 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 22.

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
4 July 2023

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 2023 which comprise the Revenue Account Statement of Comprehensive Income, the Capital Account Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Capital and Reserves, the Statement of Cash flows and the related notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK-adopted 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 2023 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 25, 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
4 July 2023

Revenue Account Statement of Comprehensive Income

	Note	**Year ended 31 March 2023 £'000**	Year ended 31 March 2022 £'000
Revenue	*2*	**36,393**	28,691
Operating costs	*3*	**(5,439)**	(3,846)
Administrative expenses		**(2,466)**	(1,509)
Operating surplus		**28,488**	23,336
Finance income	*5*	**2,650**	2,663
Finance costs	*6*	**(2,928)**	(2,179)
Net operating income		**28,210**	23,820
Development expenditure recovered from Capital		**-**	146
Net proceeds from bona vacantia	*9*	**3,838**	4,417
Duchy of Lancaster charitable funds and historical obligations		**(3,838)**	(4,417)
Net surplus for the year		**28,210**	23,966
Other comprehensive income:			
Items that will not be reclassified to profit and loss			
Actuarial gain/(loss) on retirement benefit obligations	*19*	**504**	611
Total comprehensive income on Revenue account		**28,714**	24,577

Net surplus for the year		**28,210**	23,966
Less non cash adjustments:			
Rent incentives (IFRS 16)		**(2,049)**	-
Adjusted Net Surplus		**26,161**	23,966

The notes to the accounts on pages 34 to 64 are an integral part of these financial statements.

Capital Account Statement of Comprehensive Income

	Note	**Year ended 31 March 2023 £'000**	Year ended 31 March 2022 £'000
Net (loss)/gain from fair value adjustment on investment property	*12*	**(21,933)**	62,334
Gain on disposal of investment property		**771**	1,434
Proceeds from termination of interest rate swap		**887**	-
Repayments to capital:			
Proportion of mineral royalties	*3*	**95**	88
Less recovery of capital valuation fees		**-**	(88)
Net income/(expenditure) from escheats		**69**	21
Staff costs recharged from revenue		**(595)**	(644)
Net gain on disposal of financial assets	*14*	**372**	828
(Loss)/surplus for the year on Capital account		**(20,334)**	63,973
Other comprehensive income:			
Items that will be reclassified to profit and loss			
(Loss)/gain on the revaluation of financial assets measured at fair value through other comprehensive income	*14*	**(2,174)**	736
Gain on financial derivatives		**7,039**	7,103
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*	**1,469**	2,925
Net (loss)/gain from fair value adjustment on other property	*13*	**(87)**	71
Total comprehensive (loss)/income on Capital account		**(14,087)**	74,808

The notes to the accounts on pages 34 to 64 are an integral part of these financial statements.

Balance sheet

	Note	**Year ended 31 March 2023 £'000**	Year ended 31 March 2022 £'000
Assets			
Non–current assets			
Investment property	*12*	**693,064**	712,660
Property, plant and equipment	*13*	**5,464**	5,536
Financial assets	*14*	**74,879**	75,741
Interest rate swaps	*17*	**14,590**	7,551
Total non–current assets		**787,997**	801,488
Current assets			
Trade and other receivables	*15*	**4,516**	2,965
Cash and cash equivalents		**27,169**	14,370
Total current assets		**31,685**	17,335
Total assets		**819,682**	818,823
Liabilities			
Current liabilities			
Trade and other payables	*16*	**(37,794)**	(29,175)
Total current liabilities		**(37,794)**	(29,175)
Non–current liabilities			
Borrowings	*17*	**(142,000)**	(137,000)
Provisions	*18*	**(315)**	(784)
Retirement benefit obligations	*19*	**1,596**	892
Total non–current liabilities		**(140,719)**	(136,892)
Total liabilities		**(178,513)**	(166,067)
Net assets		**641,169**	652,756
Capital and reserves			
Capital Account		**622,268**	643,394
Capital hedging reserve	*17*	**14,590**	7,551
Revenue Account		**5,123**	3,127
Retirement benefit reserve		**(812)**	(1,316)
Total reserves		**641,169**	652,756

Sir Alan Reid GCVO
Nathan Thompson CVO

4 July 2023

The notes to the accounts on pages 34 to 64 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 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 loss 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**
Net (deficit)/surplus for the year		(20,334)	–	28,210	–	**7,876**
Other comprehensive income:						
Net loss from fair value adjustment on other property	*13*	(87)	–	–	–	**(87)**
Net loss on the revaluation of financial assets	*14*	(705)	–	(256)	–	**(961)**
Gain on financial derivatives		–	7,039	–	–	**7,039**
Actuarial gain on retirement benefit obligations	*19*	–	–	–	504	**504**
Less amounts payable to the Privy Purse		–	–	(25,958)	–	**(25,958)**
Balance as at 31 March 2023		**622,268**	**14,590**	**5,123**	**(812)**	**641,169**

Statement of Cash Flows

	Note	**Year ended 31 March 2023 £'000**	Year ended 31 March 2022 £'000
Cash generated from operating activities	*21*	**35,001**	25,683
Interest paid		**(2,928)**	(2,179)
Net cash from operating activities		**32,073**	23,504
Cash flows from investing activities			
Purchase and improvement of investment property	*12*	**(7,569)**	(13,094)
Purchase of financial investments	*14*	**(4,318)**	(4,476)
Purchase of property, plant and equipment	*13*	**(38)**	(18)
Proceeds from disposal of investment properties		**5,889**	2,131
Proceeds from disposal of financial investments		**4,591**	4,960
Financial investment income		**2,650**	2,663
Net cash inflow/(outflow) from investing activities		**1,205**	(7,834)
Cash flows from financing activities			
Net proceeds from additional borrowings		**5,000**	–
Proceeds from termination of interest rate swap		**887**	–
Payments made to the Privy Purse		**(26,366)**	(20,775)
Net cash outflow from financing activities		**(20,479)**	(20,775)
Increase/(decrease) in cash in the year		**12,799**	(5,105)
Cash and cash equivalents at start of year		**14,370**	19,475
Cash and cash equivalents at end of year		**27,169**	14,370

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 67-68.

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 67-68 and, except as disclosed above, in accordance with UK-adopted international accounting standards and as modified by HM Treasury.

Adoption of new and revised standards

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

Standard	Effective date, annual period beginning on or after
Onerous Contracts - Cost of Fulfilling a Contract: Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets1	1 January 2022
Annual Improvements 2018-2020 cycle	1 January 2022

Their adoption has not had any material impact on the disclosures or amounts reported in the 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
Disclosure of Accounting Policies (Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements)	1 January 2023
Definition of Accounting Estimates (Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors)	1 January 2023

The Proper Officers are evaluating the impact that these standards will have on the financial statements of the Duchy.

At the date of authorisation of these financial statements, the following standard and interpretation relevant to the Duchy and which have not been applied in these financial statements, have not 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
Classification of Liabilities as Current or Non-Current, Non-current Liabilities with Covenants: amendments to IAS 1	1 January 2024

Notes to the accounts (continued)

The Proper Officers are evaluating the impact that these standards will have on the financial statements of the Duchy.

(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.

(c) Operating leases

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

Notes to the accounts (continued)

(d) Valuation of property

Investment property assets held for sale and owner occupied property are all held at fair value. The policy of the Duchy is to have the investment and operational property assets independently valued at least every five years. In the current year, the commercial properties and land held for development were virtually all valued externally.

All the valuations are in accordance with the principles of the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors as follows :

(i) Investment properties including land held for development and properties occupied by the Duchy are valued on the basis of Market Value, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had acted knowledgeably, prudently and without compulsion. Mineral bearing land is valued on the basis of Existing Use Value.

(ii) Mineral and foreshore assets are only valued where a letting exists, where entry has occurred, or where an interest is likely to be sold in the next year for a capital premium.

(iii) Castles and other historical properties which are not commercially let are valued at the lower of depreciated replacement cost and net realisable value, or, where there is no market in assets of that type and the property could not be physically reconstructed, a nil value is applied.

The aggregate surplus or deficit arising from revaluation is transferred to the Capital Account, which is not distributable.

The purchase or sale of property is recognised from the date on which an unconditional contract is entered into or the last substantive condition in a conditional contract is satisfied. The profit or loss on disposal of property is taken to the Capital Account Statement of Comprehensive Income. Investment properties held for sale are shown in the Balance Sheet as investment property within current assets.

(e) Owner occupied property

Properties occupied by the Duchy of Lancaster are valued on the basis of fair value. The properties are included within property, plant and equipment. Any surplus or deficit arising on revaluation is taken directly to the Capital Account Statement of Comprehensive Income.

No depreciation is provided in respect of these properties. The residual value of the property at the point where the Duchy would cease to use it, or would dispose of it, is expected to be materially in line with fair value. As such, any depreciation (between fair value and residual value) at any point would be immaterial.

(f) Financial assets

Financial assets are initially measured at fair value. Transactions costs that are directly attributable to the acquisition or issue of financial assets (other than financial assets at fair value through profit or loss) are added to fair value of financial assets, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at fair value through profit or loss are recognised immediately in profit or loss.
As mentioned in note 1b, debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI);

(i) The financial asset is held with a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and

(ii) The contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Duchy has made an irrevocable election to designate all investments in equity instruments that are not held for trading at FVTOCI on initial application of IFRS 9. See Note 1b and Note 14.

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

Notes to the accounts (continued)

(g) Depreciation

(i) In accordance with IAS 40 no depreciation is provided on investment properties.

(ii) Revenue fixed assets are fully depreciated in the year of purchase.

(h) Woodlands

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

(i) Recognition of income

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

(j) Strategic development income

Allocation of strategic development 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.

(l) Pension liabilities and post retirement benefits (continued)

The scheme assets are measured at fair value at the balance sheet date. Scheme liabilities are measured on an actuarial basis at the balance sheet date using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent term to the scheme liabilities. The resulting defined benefit 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.

(n) Bona vacantia

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

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

Notes to the accounts (continued)

(n) Bona vacantia (continued)

The proceeds from bona vacantia are accounted for by the Duchy in the year in which they are received and represent the proceeds received from estates settled by the Solicitor for the Affairs of the Duchy of Lancaster in the year ended 30 September 2022. The accounts of the Solicitor for the Affairs of the Duchy of Lancaster for the year ended 30 September 2022 are set out on page 60 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.

(s) Hedge accounting

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

Notes to the accounts (continued)

(s) Hedge accounting (continued)

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

Note 20 sets out details of the fair values of the derivative instruments used for hedging purposes..

Movements in the hedging reserve in equity are detailed in note 17.

(t) Cash flow hedges

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

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

Hedge accounting is discontinued when the Duchy revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income at that time is accumulated in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in the capital income statement.

Notes to the accounts (continued)

2. Revenue

	2023	2022
	£'000	£'000
Income from Property		
Commercial	**23,709**	19,214
Agricultural	**6,704**	5,847
Residential	**2,677**	2,659
Strategic development	**2,821**	475
Mineral rents and royalties	**482**	496
Total	**36,393**	28,691

3. Operating costs

	Repairs and other direct costs	**Repayments to Capital**	**Total 2023**	Total 2022
	£'000	**£'000**	**£'000**	£'000
Expenditure on property				
Commercial	1,959	–	**1,959**	717
Agricultural	677	–	**677**	584
Residential	840	–	**840**	870
Mineral rents and royalties	–	95	**95**	88
	3,476	95	**3,571**	2,259
Staff costs, administration and professional fees	1,868	–	**1,868**	1,587
Total	5,344	95	**5,439**	3,846

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:

	2023	2022
	£'000	£'000
Less than one year	**22,566**	20,640
Between one to two years	**19,976**	17,885
Between two to three year	**16,115**	15,092
Between three to four years	**13,538**	11,652
Between four to five years	**9,422**	9,879
After five years	**198,199**	217,090
	279,816	292,238

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

Notes to the accounts (continued)

5. Finance income

	2023 £'000	2022 £'000
Interest on fixed interest stocks and unit trusts	**609**	642
Income from equities	**1,881**	2,048
Bank and other interest	**214**	13
Investment management fees	**(54)**	(40)
	2,650	2,663

6. Finance costs

	2023 £'000	2022 £'000
Loan interest	**2,928**	2,179

Capitalised finance costs included within purchases at cost in note 12 amount to £nil (2022: £496,973). The interest rate used to determine the borrowing costs eligible for capitalisation in the year was nil% (2022: 1.95%)

7. Total comprehensive income for the year

	2023 £'000	2022 £'000
Total comprehensive income for the year is arrived at after charging:		
Staff costs (note 8(a))	**3,561**	3,006
Depreciation of Property, Plant and Equipment	**23**	18
Auditor's remuneration		
– audit services	**43**	38
– non–audit services	**–**	–

Staff costs of £595,000 (2022: £644,000) 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:

	2023 £'000	2022 £'000
Wages and salaries	**2,806**	2,268
Social security costs	**357**	272
Pension contributions	**398**	466
	3,561	3,006

(b) The average number of employees (excluding the Chancellor and non-executive Council members) during the year was 38 (2022: 31).

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 2023 £'000**	Total 2022 £'000
Rt Hon Oliver Dowden MP (appointed 27 Oct 2022)	–	–	–	–
Rt Hon Nadhim Zahawi MP (appointed 13 Sept 2022, retired 27 Oct 2022)	–	–	–	–
Rt Hon Kit Malthouse MP (appointed 8 July 2022, retired 13 Sept 2022)	–	–	–	–
Rt Hon Stephen Barclay MP (appointed 20 Sept 2021, retired 8 July 2022)	–	–	–	–
Rt Hon Michael Gove MP (appointed 24 July 2019, retired 20 Sept 2021)	–	–	–	–
Sir Alan Reid GCVO	70	–	**70**	70
Sir Michael Stevens KCVO	–	–	**–**	–
Mr Nathan Thompson CVO	275	2	**277**	267
Mr Hugh Bullock	18	–	**18**	18
The Marquess of Downshire	18	–	**18**	18
Mr Marcus Rose (retired 30 Dec 2022)	11	–	**11**	15
Ms Sonia Tolaney KC	15	–	**15**	15
Mrs Jill May (appointed 24 Feb 2022)	18	–	**18**	2
Ms Lucy Macdonald (appointed 24 Feb 2022)	18	–	**18**	2
Miss Kathryn Matthews (retired 31 Dec 2021)	–	–	**–**	14
Mr Alastair Martin (appointed 3 Jan 2023)	5	–	**5**	–
Mr Alistair Elliott (appointed 1 Feb 2023)	9	–	**9**	–
Mr Christopher Adcock LVO (retired 30 Apr 2021)	–	–	**–**	–

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

	2023	Restated 2022
Between £105,001 and £110,000	**1**	–
Between £85,001 and £90,000	**–**	1
Between £15,001 and £20,000	**–**	1

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

	2023 £'000	2022 £'000
Mr Nathan Thompson CVO	**35**	34

Notes to the accounts (continued)

9. Net proceeds from bona vacantia

	2023	2022
	£'000	£'000
Proceeds from bona vacantia	**9,121**	7,845
Provisions for late claims transferred to Late Claims Fund	**(1,213)**	(724)
	7,908	7,121
Costs of palatinate administration and historical obligations (note 10)	**(4,070)**	(2,704)
	3,838	4,417

From the net proceeds of £3,838,000, two charitable donations were made with the balance held within the Duchy of Lancaster and payable to the Duchy of Lancaster charitable funds and historical obligations.

A £350,000 charitable donation (2022: £900,000) was made to the Duke of Lancaster Housing Trust arising from the surplus receipts of bona vacantia.

A charitable donation of £520,000 (2022: £100,000) was made to the Duchy of Lancaster Benevolent Fund arising from the surplus receipts of bona vacantia. The Receiver General and the Attorney General of the Duchy of Lancaster together with the Vice Chancellor of the County Palatine act as trustees of the Duchy of Lancaster Benevolent Fund.

10. Palatinate administration and historical obligations

	2023	2022
	£'000	£'000
Administration of bona vacantia – costs met directly by the Duchy	**100**	154
Upkeep of castles and historic monuments	**3,464**	2,183
Rental and other income from castles	**–**	(4)
Savoy Chapel – stipends, running costs and repairs	**12**	43
Ceremonial, ancient stipends, charitable annuities and preservation of historic records	**424**	291
Administration of Duchy of Lancaster charitable funds	**70**	37
	4,070	2,704

Notes to the accounts (continued)

11. Analysis of Balance Sheet

	Revenue		Capital	
	2023	2022	**2023**	2022
	£'000	£'000	**£'000**	£'000
Assets				
Non–current assets				
Investment property	**–**	–	**693,064**	712,660
Property, plant and equipment	**15**	–	**5,449**	5,536
Financial assets	**1,528**	1,784	**73,351**	73,957
Interest rate swaps	**–**	–	**14,590**	7,551
Total non–current assets	**1,543**	1,784	**786,454**	799,704
Current assets				
Trade and other receivables	**4,516**	2,965	**–**	–
Cash and cash equivalents	**20,584**	12,175	**6,585**	2,195
Balances due from Capital	**13,433**	12,924	**–**	–
Total current assets	**38,533**	28,064	**6,585**	2,195
Total assets	**40,076**	29,848	**793,039**	801,899
Liabilities				
Current liabilities				
Trade and other payables	**(37,046)**	(28,145)	**(748)**	(1,030)
Balances due to Revenue	**–**	–	**(13,433)**	(12,924)
Total current liabilities	**(37,046)**	(28,145)	**(14,181)**	(13,954)
Non–current liabilities				
Borrowings	**–**	–	**(142,000)**	(137,000)
Interest rate swaps	**–**	–	**–**	–
Provisions	**(315)**	(784)	**–**	–
Retirement benefit obligations	**1,596**	892	**–**	–
Total non–current liabilities	**1,281**	108	**(142,000)**	(137,000)
Total liabilities	**(35,765)**	(28,037)	**(156,181)**	(150,954)
Net assets	**4,311**	1,811	**636,858**	650,945
Capital and reserves				
Revenue Account	**5,123**	3,127	**–**	–
Capital hedging reserve	**–**	–	**14,590**	7,551
Capital Account	**–**	–	**622,268**	643,394
Retirement benefit reserve	**(812)**	(1,316)	**–**	–
Total reserves	**4,311**	1,811	**636,858**	650,945

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 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**

	Commercial and indirect property investment £'000	Agricultural woods minerals foreshores £'000	Residential £'000	Land held for development £'000	Total £'000
Value at 31 March 2022	418,979	199,462	66,307	27,912	712,660
Purchases at cost	4,922	908	1,509	230	7,569
Transfers to owner occupied property	–	–	–	–	–
Disposals	–	(87)	–	(5,145)	(5,232)
Change in fair value	(32,044)	11,660	(167)	(1,382)	(21,933)
Value at 31 March 2023	**391,857**	**211,943**	**67,649**	**21,615**	**693,064**

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 £7,569,000 (2022: £10,221,000). Sales proceeds are net of expenses of sale and development costs charged from Revenue.

At 31 March 2023 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 2023 by valuer is as follows:

Knight Frank	56%
Savills	44%

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	150,847	164,430	188,408
Other rural assets	60,829	61,870	62,992
Urban commercial	347,452	384,690	428,089
Rural commercial	15,904	16,789	17,784
Residential property	65,204	65,285	65,565

Impact on fair value of changes to market rental values

	Increase of 10% £'000	As disclosed £'000	Decrease of 10% £'000
Urban commercial	418,106	384,690	351,256

Notes to the accounts (continued)

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

	Property type	Fair value at 31 March 2023 £'000	Valuation techniques	Unobservable inputs	Range of unobservable inputs (where meaningful)
Agricultural & forestry	Agricultural	164,430	Yield methodology	Rental values Capitalisation rate	– Farms: 1.02% to 2.11%
					Bare land: 1.00% to 2.00%
			Adjusted sales comparison approach	Farmland vacant possession values	£1,476/acre to £12,181/acre average £7,974/acre
				Discount rate for terminal value	Range: 4.00% to 5.00%
				Estimate of period until vacant possession achieved	0 to 82 years (average 0.4 years)
	Forestry	11,708	Adjusted sales comparison approach	Forestry vacant possession values	£3,249/acre to £5,853/acre (average £4,068/acre)
	Sporting	3,319	Yield methodology	Rental values Capitalisation rate	3.84% to 10.00% (average 6.67%)
	Foreshore	22,724	Yield methodology	Rental values Capitalisation rate	1.63% to 10.00% (average 8.62%)
	Mineral	2,862	Yield methodology	Rental values Capitalisation rate	7.50% to 8.50%
	Development land	21,744	Discounted cash flow	Discount rate	7.00% to 15.00% (average 11%)
				Risk factor	20.00% to 70.00% (average 49%)
				Time to completion	1 to 25+ years (average 10 years)
	Other rural assets	2,375	Yield methodology	Rental values Capitalisation rate	– 3.33% to 3.33% (average 5 %)
			Adjusted sales comparison approach	Adjusted comparable vacant possession values	£224 /acre to £29,487/acre
	Total	**229,162**			
Commercial	Urban commercial	387,165	Yield methodology	Rental values	Industrial : £5.00 to £26.50 psf Office : £12.50 to £82.50 psf Retail: £13.56 to £200 psf
				Capitalisation rate	Industrial : 4.75% to 8.00% Office : 3.35% to 11.50 % Retail: 4.75% to 6.00% Other: 3.85% to 12.0%
	Rural commercial	16,789	Yield methodology	Rental values	–
				Capitalisation rate	3.38% to 10.95% (average 9.2%)
	Total	**403,954**			
Residential	Rural residential	65,397	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 123 years (average 0.57 years)
	Total	**65,397**			

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 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
Less: disposals during the year	–	–	–	–
Balance at 31 March 2022	**–**	**17**	**404**	**421**
Net Book Value				
31 March 2022	**5,536**	**–**	**–**	**5,536**

	Owner Occupied Property £'000	Motor Vehicles £'000	Plant & Equipment £'000	Total £'000
Cost or valuation				
Balance at 1 April 2022	5,536	17	404	5,957
Additions during the year	–	–	38	38
Change in fair value	(87)	–	–	(87)
Transfers from Investment property	–	–	–	–
Balance at 31 March 2023	**5,449**	**17**	**442**	**5,908**
Accumulated depreciation				
Balance at 1 April 2022	–	17	404	421
Charged during the year	–	–	23	23
Balance at 31 March 2023	**–**	**17**	**427**	**444**
Net Book Value				
31 March 2023	**5,449**	**–**	**15**	**5,464**

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 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/(loss) 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**
Purchases	1,115	3,203	–	4,318	–	4,318
Sale proceeds	(831)	(3,760)	–	(4,591)	–	(4,591)
Gain/(loss) on sale	(204)	576	–	372	–	372
Change in fair value	(2,174)	1,632	(163)	(705)	(256)	(961)
Value at 31 March 2023	**11,279**	**61,061**	**1,011**	**73,351**	**1,528**	**74,879**

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

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

The changes in market values are recognised in the Capital Account Statement of Comprehensive Income apart from the change in market value of the Fixed interest unit trust which is recognised in note 18.

All financial assets except the private equity funds are listed on recognised stock exchanges, are authorised unit trusts, or are authorised open ended investment companies. Other financial assets are investments held to cover late claims liabilities (note 18).

Investment management fees of £352,000 were charged in the year (2022: £408,000). These fees are charged to the capital of the investment funds.

Notes to the accounts (continued)

15. Trade and other receivables

	2023	2022
	£'000	£'000
Trade receivables (rents)	**1,275**	1,222
Other receivables	**225**	359
Prepayments and accrued income	**3,016**	1,384
	4,516	2,965

As of 31 March 2023 trade receivables of £1,275,000 (2022: £1,222,000) were due but not impaired.

The ageing analysis of these trade receivables is as follows:

	2023	2022
	£'000	£'000
Under 3 months	**1,254**	1,149
3 to 12 months	**21**	59
Over 12 months	**–**	14

The ageing of impaired receivables is as follows:

	2023	2022
	£'000	£'000
Under 3 months	**–**	235
3 to 12 months	**176**	300
Over 12 months	**195**	56

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:

	2023	2022
	£'000	£'000
At 1 April	**591**	1,018
Provision for receivables impairment	**(220)**	(61)
Receivables written off	**–**	(366)
At 31 March	**371**	591

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 debtors and an analysis of the debtors current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

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

Notes to the accounts (continued)

16. Trade and other payables

	2023 £'000	2022 £'000
Amounts falling due within one year:		
Trade payables	**2,728**	2,029
Other taxes and social security	**763**	342
Other payables	**4,732**	2,558
Late claims provision	**1,213**	1,000
Accruals and deferred income	**7,396**	6,229
Due to the Privy Purse	**4,327**	4,766
Due to Duchy of Lancaster charitable funds and historical obligations	**16,635**	12,251
	37,794	29,175

17. Borrowings

	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)**

	Less than 1 year £'000	1 to 5 years £'000	Over 5 years £'000	2023 Total £'000
Borrowings	–	42,000	100,000	**142,000**
Interest rate swaps	–	(4,231)	(10,359)	**(14,590)**

The total borrowings of £142m 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 2.33%.
- Loan of £15m 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%.
- Loan of £10.0 m repayable June 2052, interest in the year is at a fixed rate of 3%.

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 February 2023 the Duchy repaid £5m of a £20m bank loan (fixed interest rate 1.94%). Upon this transaction, a portion of the associated interest rate swap was unwound at a gain, resulting in proceeds of £887,000, which were recognised in the capital hedging reserve.

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	
	2023 %	2022 %	2023 £'000	2022 £'000	2023 £'000	2022 £'000	2023 £'000	2022 £'000
Less than 1 year	–	–	–	–	–	–	–	–
1 to 2 years	–	–	–	–	–	–	–	–
2 to 5 years	2.02	2.02	42,000	42,000	4,231	2,100	2,131	(169)
5 years +	1.98	1.92	100,000	95,000	10,359	5,451	4,908	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:

	2023 £'000	2022 £'000
Provisions for late claims received from the bona vacantia account	**1,213**	724
Decrease in value of investments	**(256)**	(98)
Claims paid during the year	**(1,213)**	(726)
Deficit for the year	**(256)**	(100)
Late Claims Fund balance at 1 April	**1,784**	1,884
Late Claims Fund balance at 31 March	**1,528**	1,784

	2023 £'000	2022 £'000
Shown as:		
Included in Trade and other payables	**1,213**	1,000
Included in Non-current liabilities – provisions	**315**	784

Notes to the accounts (continued)

19. Retirement benefit obligations

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

	31 March 2023 % pa	31 March 2022 % pa
Discount rate	**4.8**	2.6
Inflation assumption (RPI)	**3.2**	3.8
Inflation assumption (CPI)	**2.6**	3.3
Rate of increase in pensions in payment	**2.6**	3.3
Rate of increase in pensionable salaries	**4.7**	5.3

Assumed life expectancies on retirement at age 60 are:

	31 March 2023	31 March 2022
Retiring today – males	**26.5**	26.6
Retiring today – females	**28.9**	29.2
Retiring in 20 years times – males	**27.7**	27.7
Retiring in 20 years times – females	**30.1**	30.3

The assets in the Scheme were:

	Value at 31 March 2023 £'000	Value at 31 March 2022 £'000
Gilts	**3,137**	6,910
Equities	**1,691**	3,022
Cash	**1,796**	124
Corporate Bonds	**866**	–
LDI	**1,097**	–
Fair value of Scheme assets	**8,587**	10,056

The actual return on assets over the period was:

	31 March 2023 £'000	31 March 2022 £'000
Actual return on assets over the period	**(1,138)**	679

	2023 £'000	2022 £'000
Present value of funded obligations	**(6,994)**	(9,164)
Fair value of Scheme assets	**8,590**	10,056
Surplus in funded scheme	**1,596**	892
Present value of unfunded obligations	**–**	–
Unrecognised actuarial gains/(losses)	**–**	–
Adjustment in respect of asset ceiling and minimum funding requirement	**–**	–
Net surplus in balance sheet	**1,596**	892

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

	2023 £'000	2022 £'000
Benefit obligation at beginning of year	**9,164**	9,672
Current service cost	**28**	17
Interest cost	**233**	178
Contributions by Scheme participants	**1**	1
Net remeasurement (gain)/loss – financial	**(2,376)**	(219)
Net remeasurement loss/(gain) – demographic	**(83)**	43
Net remeasurement loss/(gain) – experience	**562**	63
Benefits paid	**(535)**	(591)
Past service cost	**–**	–
Benefit obligation at end of year	**6,994**	9,164

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

	2023 £'000	2022 £'000
Fair value of Scheme assets at beginning of year	**10,056**	9,684
Interest income on Scheme assets	**257**	181
Return on assets, excluding interest income	**(1,393)**	498
Contributions by employer	**367**	377
Contributions by Scheme participants	**1**	1
Benefits paid	**(535)**	(591)
Scheme administrative costs	**(163)**	(94)
Fair value of Scheme assets at end of year	**8,590**	10,056

Reconciliation of the effect of the asset ceiling

	2023 £'000	2022 £'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:

	2023 £'000	2022 £'000
Service cost – including current and past service costs and settlements	**27**	17
Service cost – administrative cost	**163**	94
Net interest on the net defined benefit liability	**(26)**	(3)
Total expense	**164**	108

Notes to the accounts (continued)

19. Retirement benefit obligations (continued)

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

	2023 £'000	2022 £'000
Net remeasurement gain – financial	**(2,376)**	(219)
Net remeasurement (gain)/loss – demographic	**(83)**	43
Net remeasurement loss – experience	**562**	63
Return on assets, excluding interest income	**1,393**	(498)
Changes in the effect of the asset ceiling excluding interest income	**–**	–
Total remeasurement of net defined benefit to be shown in OCI	**(504)**	(611)

Sensitivity analysis

	Impact on Scheme liabilities	
	2023	2022
Discount rate – decrease by 1.0% pa	**+10%**	+13%
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 2023.

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 20% in return seeking assets (UK equities) and 80% in matching assets (LDI, index-linked gilts and investment grade credit). This strategy is targeting an approximate hedge of 100% against changes in the liabilities on the Technical Provisions basis due to changes in interest rates and inflation expectations.

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 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	–	7,550	–	7,550
Total recurring financial debtors	–	7,550	–	7,550
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

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 2023.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets				
Debt instruments at fair value through other comprehensive income (FVTOCI)	11,279	–	–	11,279
Investments in equity instruments designated at FVTOCI	61,061	1,011	–	62,072
Total recurring financial assets	72,340	1,011	–	73,351
Financial debtors				
Interest rate swaps	–	14,590	–	14,590
Total recurring financial debtors	–	14,590	–	14,590
Non–financial assets:				
Investment properties	–	–	693,064	693,064
Owner occupied properties	–	–	5,449	5,449
Total recurring non–financial assets	–	–	698,513	698,513

The Duchy has measured land at fair value on a non-recurring basis as a result of the reclassification of the land as held for sale.

There have been no transfers between levels 1 and level 2 recurring fair value measurements during the year.

The Duchy's policy is to recognise transfers into and out of the different fair value hierarchy levels at the date the event or change in circumstances that caused the transfer occurred.

The following table sets out the total gains or losses for the period included in profit or loss that is attributable to the changes in unrealised gains or loss relating to those assets and liabilities held at the end of the reporting period that is included in gains/(losses) recognised in other income.

	Unlisted equity securities £'000	Investment property £'000	Owner occupied property £'000	Total £'000
Unrealised gains recognised in profit or loss attributable to assets held at the end of the reporting period	–	(22,063)	43	(22,020)

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

	2023 £'000	2022 £'000
Net surplus on Revenue account	**28,210**	23,966
Net (deficit)/surplus on Capital account	**(20,334)**	63,973
Adjusted for:		
Depreciation	**23**	18
Current service costs less contributions to pension scheme	**(177)**	(269)
Net finance cost/(income)	**278**	(484)
Decrease in valuation of other financial investments	**256**	98
Net loss/(gain) from fair value adjustment on investment property	**21,934**	(62,334)
Gain on disposal of investment property	**(658)**	(1,434)
Net gain on the disposal of financial assets	**(372)**	(828)
(Increase)/decrease in receivables	**(1,550)**	43
Increase in payables	**7,391**	2,934
Net cash inflow from operating activities	**35,001**	25,683

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 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	**7,551**	**14,370**	**–**	**(137,000)**	**(115,079)**

	1 April 2022 £'000	Cash flow £'000	Acquisitions and disposals £'000	Fair value gains and losses £'000	Interest charge £'000	31 March 2023 £'000
Cash and bank balances	14,370	12,799	–	–	–	27,169
Interest rate swaps	7,551	–	–	7,039	–	14,590
Borrowings	(137,000)	(5,000)	–	–	–	(142,000)
	(115,079)	**7,799**	**–**	**7,039**	**–**	**(100,241)**

	Non–current assets £'000	Current assets £'000	Current liabilities £'000	Non–current liabilities £'000	Total £'000
Cash and bank balances	–	27,169	–	–	27,169
Interest rate swaps	14,590	–	–	–	14,590
Borrowings	–	–	–	(142,000)	(142,000)
Balance at 31 March 2023	**14,590**	**27,169**	**–**	**(142,000)**	**(100,241)**

Notes to the accounts (continued)

22. Related party transactions

An amount of £350,000 was received from the Duke of Lancaster Jubilee Trust for subsequent charitable donations. The Chief Executive Officer acts as a trustee of the Duke of Lancaster Jubilee Trust.

A charitable donation of £350,000 (2022: £900,000) was made to the Duke of Lancaster Housing Trust) arising from the surplus receipts of bona vacantia.

A charitable donation of £520,000 (2022: £100,000) was made to the Duchy of Lancaster Benevolent Fund arising from the surplus receipts of bona vacantia. The Receiver General and the Attorney General of the Duchy of Lancaster together with the Vice Chancellor of the County Palatine act as trustees of the Duchy of Lancaster Benevolent Fund.

23. Financial risk management

A review of the Duchy's financial risks is set out in the Strategic Report on pages 18 to 22.

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 2023, 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 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	100,000	142,000
Net interest payable on swaps	–	(4,231)	(10,359)	(14,590)
Trade and other payables	37,793	–	–	37,793
At 31 March 2023	**37,793**	**37,769**	**89,641**	**165,203**
At 31 March 2022	21,604	39,900	89,549	151,053

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 2023 the Duchy had entered into contracts for major improvement works in respect of various refurbishments that gave rise to capital commitments totalling £1,797,941 (2022: £1,255,828).

Duchy of Lancaster Rural Surveys

The Duchy of Lancaster Rural Surveys totalling approximately 44,748 acres are located as follows:

	Acres
The Staffordshire Survey	**7,398**
Needwood estate	
The Cheshire Survey	**3,457**
Crewe estate	
Marbury estate	
The Lancashire Survey	**9,743**
Whitewell estate	
Myerscough estate	
Wyreside estate	
Salwick estate	
The Yorkshire Survey	**15,127**
Cloughton estate	
Pickering estate	
Marishes estate	
Goathland estate	
Pontefract estate	
The Southern Survey	**9,023**
Higham Ferrers estate	
Castleton estate	
Ogmore estate	
Lincolnshire estate	
	44,748

Accounts of the Solicitor for the Affairs of the Duchy of Lancaster for the year ended 30 September 2022

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 126 intestate estates (2021: 157) and 1,968 dissolved companies (2021: 1,197) were formally reported.

Income and expenditure account for the year ended 30 September 2022

	2022 £
Income	
Monies received from dissolved companies	10,793,383
Monies received from intestate estates	2,621,914
Interest and other	8,780
Monies received	13,424,077
Expenditure	
Payments to next of kin	(985,309)
Company restoration	(3,082,595)
Ex–gratia payments to claimants	(39,050)
Administration costs	(107)
Net income less expenditure	9,317,015
Paid to the Duchy of Lancaster	(9,962,486)
Net deficit for the year ended 30 September 2022	(645,471)
Cash balances at 1 October 2020	9,767,660
Net surplus for the year ended 30 September 2022	(1,199,571)
Cash balances at 30 September 2022	8,568,090

Balance sheet as at 30 September 2022

	2022 £
Current assets	
Cash and deposits	8,568,090
	8,568,090
Current liabilities	
The Duchy of Lancaster	(3,019,801)
Other creditors	–
	(3,019,801)
Total assets less current liabilities	5,548,289
Representing:	
Estates under administration	5,548,289

Accounts direction given by HM Treasury

Operating Review

1. The Duchy of Lancaster shall prepare accounts for the financial year ended 31 March 2023 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 2019. It shall be reproduced as an appendix to the accounts.

David Fairbrother
Treasury Officer of Accounts — June 2023

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 2021 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 2024.

DUCHY of LANCASTER

Annual Report

Report and accounts of the Duchy of Lancaster for the year ended 31 March 2023

www.duchyoflancaster.co.uk

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