



DUCHY *of* LANCASTER



Report and Accounts

Year ended 31st March 2018

Preserving the past, investing for the future



DUCHY *of* LANCASTER

Annual Report

Report and accounts of the Duchy of Lancaster
for the year ended 31 March 2018



Introduction

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

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

Today, the estate covers 18,485 hectares of rural land divided into five Surveys: Cheshire, Lancashire, Staffordshire, Southern and Yorkshire. It also includes Foreshore and a Minerals Survey, together with a growing Urban Survey which is made up of a number of office, retail and industrial properties across the country.

History

In 1265, King Henry III gifted to his son Edmund the baronial lands of Simon de Montfort. A year later, he added the estate of Robert Ferrers, Earl of Derby and then the 'honor, county, town and castle of Lancaster', giving Edmund the new title of Earl of Lancaster.

In 1267, Edmund also received from his father the manor of Newcastle-under-Lyme in Staffordshire, together with lands and estates in both Yorkshire and Lancashire. This substantial inheritance was further added to by Edmund's mother, Eleanor of Provence, who bestowed on him the manor of the Savoy in 1284.

Edmund's inheritance passed to his son Thomas, Earl of Lancaster who was executed in 1322 by King Edward II for rebellion. His lands and titles eventually passed to his



Her Majesty The Queen, Duke of Lancaster.



Young Pony Club riders meet Her Majesty at Eland Lodge Equestrian Centre, Needwood estate.

Introduction *continued*



Henry Grosmont, Duke of Lancaster.

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

Edward III also raised Lancaster to a County Palatine for the duration of Henry's life. Palatinate powers were devolved royal powers for use in regions where central government was difficult. These devolved powers gave the Duke of Lancaster administrative control of the law courts and the right to appoint the sheriff, judges, justices of the peace and other senior officials serving the County.

When Henry Grosmont died in 1361, the inheritance became part of his daughter Blanche's dowry. She had married one of Edward III's sons, John of Gaunt, in 1359.

John was made 2nd Duke of Lancaster in 1362 and persuaded his father Edward III to grant the Palatinate powers to him and his heirs permanently.

When John died in 1399, King Richard II confiscated the Lancaster inheritance and banished John's son, Henry Bolingbroke, from England for life. Within the year, Henry Bolingbroke returned from exile, raised an army and forced Richard to abdicate. He ascended to the throne as Henry IV in October 1399.

One of Henry's first acts as King was to stipulate the conditions on which the Lancaster inheritance

should be held. He specified that it should be held separately from other Crown possessions, remaining always with the House of Lancaster.

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

Some 300 years later, under the Crown Lands Act 1702, it was provided that the Sovereign should only receive income and not capital from the Duchy.

And so it remains to this day.

The Duchy Today

Seven hundred and fifty years on, the Duchy of Lancaster remains largely the same in terms of its land and historic property holdings. However, as a modern landed estate, it also includes a diverse portfolio of office, retail and industrial property, as well as development land.

The management of the property portfolio, financial investments and the discharge of the Duchy's administrative duties associated with its Palatinate rights and responsibilities in Lancashire, Merseyside and Greater Manchester is overseen

by the Chancellor of the Duchy of Lancaster and the Duchy Council, although the present Duke retains a keen interest.

The net revenue of the estate is paid to the Keeper of the Privy Purse for Her Majesty the Queen as Duke of Lancaster. The Duchy is not subject to corporation tax because the Duchy is not a separate legal entity for tax purposes. However, Her Majesty the Queen is subject to tax on all income received from the Duchy.

Guiding Principles

The Duchy of Lancaster is a historic organisation with a keen eye on the future. Our role is to ensure an appropriate balance between long-term commitment to our tenants and the communities in which we operate and the long-term sustainability of our land and property assets. This means acting responsibly, investing prudently and delivering effectively on clear commercial objectives.

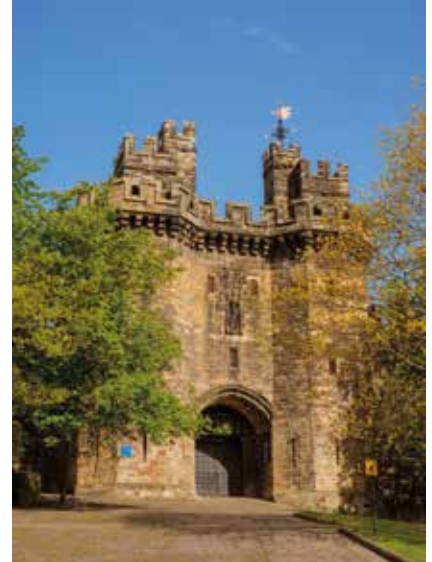
As a major owner of agricultural land and areas of outstanding natural beauty, the Duchy takes great care to ensure environmental sustainability across the estates. The partnership between the Duchy and its agricultural tenants extends beyond the contractual and includes the provision of experienced support and advice. Land use is monitored and investment in new technologies and energy sources actively encouraged. This year we are particularly looking at farm presentation standards and soil management techniques to help

our tenants improve the quality and productivity of the land, while continuing to care for and respect the Duchy's historic assets.

Our commercial strategy is to continue to deliver revenue growth while working with our tenant communities and respecting at all times our heritage and our values. It is a strategy which is continually reviewed and updated in response to the market cycle so that we maintain a sustainable business for the long term.

The Duchy includes many national heritage properties, including ten castles from Lancaster in the North to Ogmore in the South. Most of these are leased or entrusted to guardians responsible for managing visitor access. The Duchy maintains an active watching brief over the maintenance and restoration of these historic monuments as appropriate.

The Estates include a number of residential development sites. These are subject to the Duchy's own Design Standard to ensure that, wherever possible, the highest standards of construction and specification are achieved. Working with tenants and partners across England and Wales, the Duchy Council is happy to support diversification and innovation as a means of safeguarding the stability and long-term sustainability of the estate as a whole.



The John O'Gaunt Gate, Lancaster Castle.

The Surveys

Minerals

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

Rural

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

In 2017, the decision was taken to bring the management of two more of the Duchy's historic Surveys in house: Lancashire and Yorkshire. These are overseen by a multi-disciplinary team of chartered surveyors, building surveyors and rural accountants based in the Duchy's new Northern office at Lancaster Castle.

- **Cheshire**

The Cheshire Survey is largely made up of the Crewe estate to the south of the county and includes the smaller Marbury

estate which lies on the Cheshire/Shropshire border.

Centred on the historic properties of Crewe Hall and Crewe Hall Farm, the Cheshire estate extends to 1,402 hectares, stretching from the edge of the town to the M6 at Junction 16. There are 10 main farms on the estate which are involved in dairy, arable and livestock production, as well as equestrian businesses and woodlands. At Crewe Hall Farm the Duchy has created a highly sought-after business address, with nine companies in flexible office suites of varying sizes surrounded by views of the open countryside.

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

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

- **Lancashire**

The Lancashire Survey extends to 3,840 hectares in total, comprising four rural estates: Myerscough, Salwick, Whitewell and Wyreside.

The Duchy has owned Myerscough since the 13th century. There are six principal agricultural holdings on the 594-hectare estate, including three which form part of the



Dairy farming at Carters Green Farm on the Crewe estate, Cheshire.



New Laund Farm on the Whitewell estate, Lancashire.

Foreshore

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

renowned agricultural training centre at Myerscough College. Five residential properties and six commercial lettings are also part of the estate.

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

At 2,447 hectares, Whitewell is the largest estate in the Survey. It lies within the Area of Outstanding Natural Beauty that is the Forest of Bowland and includes nine main farms, 40 residential properties and 20 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. During the year a further 52 hectares were acquired at Fair Oak, Whitewell. This land, which marches with the estate, includes 9 hectares of commercial forestry and south-facing hill ground.

The Wyreside estate covers some 307 hectares, including one main agricultural holding and four residential properties. There are also 34 commercial and miscellaneous lettings, ranging from private fishing lakes to family camping and caravan parks.

- **Southern**

The Southern Survey incorporates the Duchy of Lancaster's land and property assets in South Wales, Northamptonshire, Lincolnshire and Derbyshire. It extends to a total of 3,668 hectares.

Since 2015 the Southern Survey has grown by 50 per cent.

The Surveys *continued*

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



The Queen's Chapel of the Savoy, London.



Southerndown Golf Course, Ogmore.

Four strategic acquisitions in Lincolnshire have increased our total land holding on this estate to 1,053 hectares and supported the Duchy's strategy of investing in root crop farming and arable farmland. The merger of two contiguous land holdings in 2016/17 created a new signature farm for the Lincolnshire estate.

At Castleton in the Derbyshire Peak District, the Duchy owns 124 hectares of grazing land as well as Peveril Castle, the Peak Cavern tourist attraction, and historic mineral rights under a wide area.

The Northamptonshire estates are centred on the 13th century inheritance of Higham Ferrers and Wollaston with a total land holding of 818 hectares, consisting mainly of arable farms. They also include an 18-hole golf course at Rushden and a Vocational Skills Academy at New Farm College developed jointly by the Duchy and Moulton College.

In South Wales, the Ogmore estate consists of 1,645 hectares of common land and includes an active limestone quarry, a Castle and a championship golf course at Southerndown.

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

• **Staffordshire**

The Staffordshire Survey is comprised of the 2,970-hectare Needwood estate.

Originally a large area of ancient woodland with extensive stocks of wolf, wild boar and fallow deer, today the Needwood estate comprises a mix of 49 arable, dairy, sheep and beef farms, 53 residential properties and 54 commercial and miscellaneous lettings. The commercial interests across the estate are diverse and range from specialist equestrian centres and liverys to a saw mill, shooting and fishing licenses, live/work units and a private airfield.



Hedge and woodland, Needwood.

The Duchy is carrying out a programme of works to improve the quality of over 500 hectares of existing woodland, parts of which are open to the public. Areas of the estate also form part of the National Forest designation and have been planted with new woodland in conjunction with the National Forest. The woodland has also recently become part of the Countryside Stewardship Scheme further intensifying the management of the areas.

• Yorkshire

The Yorkshire Survey covers 6,605 hectares across four main estates: Cloughton, Goathland, Pickering and Pontefract.

Cloughton is made up of 962 hectares of arable and pasture land as well as 34 residential tenanted properties. The creation of a sustainable new model farm at Fields Farm was completed in December 2015, moving the agricultural operation out of the village centre and into the open countryside. This has enabled the Duchy to provide much-needed residential homes in the heart of the village.

The 4,324-hectare Goathland estate includes a large area of heather moorland, much of which is a Site of Special Scientific Interest (SSSI). Upland grazing and grouse shooting form the majority of the let interests on the estate.



Moorland edge, Goathland estate, Yorkshire.

The Pickering estate is home to a mix of arable and livestock farming. There is also a large area of native broadleaf forestry.

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

Urban

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

The Savoy Estate in London is the largest asset block in the Urban portfolio largely comprising office and retail space. It is bounded to the north and south by the Strand and Embankment respectively and to the west and east by the Savoy Hotel and Somerset House. It is well placed to take advantage of the strong mid-town commercial market being served by excellent transport links and benefitting from the public realm improvements instigated by the NorthBank Business Improvement District as well as the major investment that has taken place in nearby Covent Garden and surrounding area. The estate also includes The Queen's Chapel of the Savoy.

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

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



9 Savoy Street, London.



The Stray, Harrogate.

The Surveys *continued*



State-of-the-art warehousing, Redditch.

The portfolio includes a significant number of industrial/warehouse properties with the key core holdings in established locations such as Tower Bridge Business Park in Greater London, Basingstoke, Harlow and Swindon in the South, Erdington and Redditch in Birmingham and Trafford Park in Manchester.

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

Planning and Development

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

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

A key focus this year has been the identification of strategic partners who share this vision and whose schemes demonstrate a clear

commitment to quality, design, sustainability and local market need. The first of these joint venture projects was on a site in Harrogate where we worked with Linden Homes. The construction is due for completion this year and all properties should be occupied by summer 2018.

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

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

Financial Portfolio

As part of its strategic asset allocation policy, the Duchy of Lancaster holds a financial investment portfolio. These take 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 highly respected investment consultants and fund managers. Decisions are made on the basis of appropriate asset allocation and all of our investments are fully audited and legally compliant.



Primus 100 building, Birmingham.

Highlights of 2017-18

Royal Visit To Staffordshire

Her Majesty The Queen as Duke of Lancaster visited Her Needwood estate in May. The visit included a tour of Duchy properties and a reception for around 50 tenants and invited guests at Lower Castle Hayes Farm in Tutbury.



Lower Castle Hayes Farm, Staffordshire.

Travelling by helicopter, the Royal Party landed at Tatenhill Airfield which was originally built as an RAF base during the Second World War and is now a thriving aviation and avionics centre.

Her Majesty then toured the largest of the 13 equestrian tenancies on the estate, Eland Lodge Equestrian Centre in Draycott-in-the-Clay where young riders from local Pony Clubs gave a cross-country riding demonstration.

The Duke also had an opportunity to view some of the 300-strong herd of Holstein Montbeliarde cross cows managed at Lower Castle Hayes Farm before a lunch-time reception held in a marquee in the gardens.

Protecting Natural Capital

Following the successful bio-diversity audit carried out across all of the Duchy's rural holdings in 2016/17, we are continuing our focus on preserving and enhancing natural capital across the rural estates. New initiatives this year have included the development of a comprehensive woodland management plan for the Needwood estate in partnership with Natural England and the Forestry Commission and a review of both current soil quality and active soil management techniques applied across the rural estates.

Soil management, including appropriate drainage, is an integral part of responsible land management. It helps our tenants to make best use of the land as well as increasing its productivity and long-term sustainability. As a first step, we sent out a Survey questionnaire, the results of which will provide us with baseline data to inform our thinking. In the year ahead we are planning a series of workshops which will bring together tenants from across all of the Surveys to share their knowledge and encourage best practice.

Preserving the Past

The Duchy Council has approved the next phase of conservation and restoration works at Lancaster Castle. This is a significant scope of works which includes the demolition of the former Prison Visitors Centre in order to reveal the Kitchen Courtyard beyond.



The Queen meeting Her Duchy tenants.



Protecting natural capital.

Highlights of 2017-18 *continued*



Conservation works, Lancaster Castle.

Working with skilled craftsmen, the Duchy has also lowered the Castle's rear curtain wall to its original height, restoring historic sightlines and reinforcing the link between the Castle and the Priory.

Once completed, the conservation works will create a much larger public open space and reveal buildings which have remained hidden from public view for generations. Heritage structures including the Male Felons and Kings Evidence Towers as well as the former Prison Hospital will be revealed once again to be enjoyed by future generations.

The conservation and refurbishment works include the creation of a purpose-built conference and teaching suite, café/bistro, ticket office and shop.



Opening up historic views, Lancaster Castle.

Investing for the Future

In January, the Duchy secured planning permission from Westminster City Council for the refurbishment of Norman House on the Strand. The building stands in the heart of the historic Savoy estate, an area of land which has belonged to the Duchy of Lancaster since the 13th century.

While the front of the existing building faces the Strand, the rear of the building overlooks the listed Queen's Chapel of the Savoy and the famous Savoy Steps. Great care has been taken in developing the design proposals to ensure that this view is preserved and enhanced and the links between the Strand and Embankment Gardens are improved.

The project will include a major refurbishment of the existing 1920s building, as well as the addition of two new storeys at the front and rear. It will be the largest single refurbishment project ever undertaken by the Duchy and once completed will provide a landmark retail, restaurant and office space on the Strand.



The vision for Norman House, Strand.

Strategic Report

Financial and Risk Review

- The Net Surplus has increased in the year by 4.9% to £20.2m (2017: £19.2m).
- Increase in Net Asset Value of 2.9% to £533.8m (2017: £518.7m).

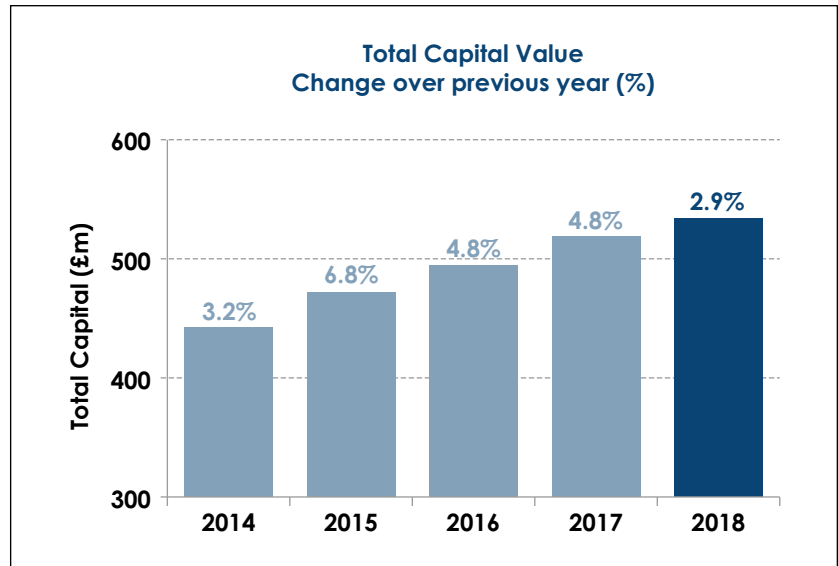
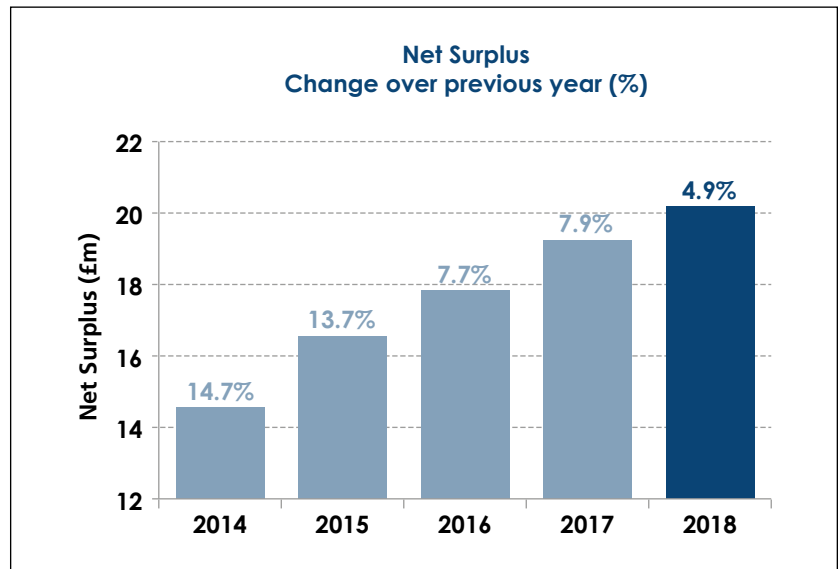
This has been another positive year for the Duchy, with strong growth in almost all of our business sectors. The continued priority and push on quality and sustainability, as well as a more focussed in-house approach to management of our surveys has served us well in the year and contributed significantly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

Over the year, the Duchy purchased £0.2m of land and property and sold £0.6m. Overall, the Duchy has invested £5m in repairs and improvements.

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

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

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



Strategic Report *continued*

Liquidity and the Financial Portfolio

Over the year, the Duchy has maintained its borrowing levels at £97m and has continued to benefit from historically low interest rates throughout the period. The level of gearing is continually under review and Council has approved borrowing up to £110m. In accordance with the revised borrowing policy and risk mitigation, one half of current debt remains on a fixed rate for the remaining duration of the loans.

The financial portfolio, as well as providing a significant income for the Duchy, remains the major source of liquidity. The management of the quoted portfolio has been predominantly placed in the hands of a single manager, Newton Investment Management Limited, which has helped to enhance accountability and reduce administration.

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

Principal risks and uncertainties

The Duchy seeks to ensure that risks are identified, quantified and managed appropriately. There is a comprehensive risk register reviewed by Council annually. In addition, an annual risk review is presented to Council which considers the key areas of property income risk across the Duchy portfolio.

The Duchy has also established an advisory group which meets twice a year to focus specifically on occupational, investment and construction markets in the business sectors and geographic areas in which the Duchy operates.

The principal risks faced by the Duchy are shown below.

Strategic risk

Each year the Duchy carries out a five year business plan as well as preparing rolling forecasts for the year ahead. As part of this process a review is undertaken of long term trends to assess options for continued and ongoing viability of Duchy operations, this would include any outcomes from Brexit negotiations.

Property risk

The principal property risk is the loss of income. A full annual review of tenants and sectors is undertaken to ensure a well-diversified tenant base and staggered lease expiries and to assess the target of improving the covenant strength and diversification across the Duchy portfolios.

Development risk

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



Raw Milk cabana, Gracemire Farm, Lancashire.

Financial portfolio risk

The Duchy employs an investment consultant to advise overall and an investment manager to manage the financial portfolio on a day-to-day basis. The portfolio is reviewed quarterly by both Duchy Council and the investment consultant to ensure that it remains in line with the risk and return objectives set by the Duchy.

Interest rate risk

The Duchy has an approved debt policy and hedging strategy in place in order to maintain interest rate risk at an agreed and manageable level.

Liquidity risk

The Duchy seeks to maintain liquidity within its financial portfolio to satisfy short term cash requirements as well as to maintain headroom within its borrowing covenants. Long term liquidity is reviewed and addressed as part of the five year business plan process.

Environmental risk

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

Cyber risk

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

Reputational risk

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

Council is responsible for ensuring that an effective system of internal financial controls is maintained and operated by the Duchy. Council's review of the system of these controls is informed by comments made by the external auditors in their management letter and other reports.

Sir Alan Reid GCVO
Nathan Thompson
London
3 July 2018

Report of Council



Charter of 1267 showing Henry III making his son Edmund Earl of Lancaster.

Review of Governance

Duchy Capital and Revenue

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

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

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

Church Livings

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

Political and charitable donations

Charitable donations were made from the net income from the bona vacantia and Palatinate account credited to Duchy of Lancaster charitable funds, as described below. There were no political donations.

The Duchy of Lancaster charitable funds

The Duchy of Lancaster charitable funds comprise separate registered charities set up with The Queen's consent. The Duchy of Lancaster Benevolent Fund,

formed in 1993, makes donations to a wide range of charitable causes primarily within the County Palatine. The Duchy of Lancaster Jubilee Trust was formed in 2001 to benefit charitable causes in all areas associated with the Duchy. The Duke of Lancaster Housing Trust was incorporated in 2007 to provide affordable rural housing initially within estates in the ownership of the Duchy. The accounts of these charities are published separately and are available from the Charity Commission and from the Duchy Office.

Administration

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

The accounts are prepared in compliance with the Treasury Direction set out on pages 55-56. The Chancellor has designated the members of the Council of the Duchy of Lancaster as the Proper Officers and that the Chairman of Council and Clerk of the Council are authorised to sign the accounts on behalf of Council.

The Proper Officers are responsible for the preparation of accounts which are required to be submitted to the Treasury and presented to both Houses of Parliament by Section 2 of the Duchies of Lancaster and Cornwall (Accounts) Act 1838.



Duchy of Lancaster offices, Lancaster Place.

Council of the Duchy of Lancaster

The Chancellor is responsible to Her Majesty the Queen in connection with the affairs of the Duchy of Lancaster separate from his or her Parliamentary role. On 1 July 2000 the Chancellor revocably delegated certain functions, particularly those relating to asset management, to Council. The revocable Delegation has been reaffirmed by successive Chancellors. Certain powers have been excluded from the Delegation which relate to senior Duchy appointments and such powers conferred upon the Chancellor by Statute. The Clerk of the Council is a member of Council and reports to that body, with Council being responsible to the Chancellor.

The members of Council who served since 1 April 2017 were:

- Sir Alan Reid GCVO (Chairman of the Council), appointed as Chairman 1 January 2018
- Sir Mark Hudson KCVO (Chairman of the Council), retired 31 December 2017
- Sir Michael Stevens KCVO (The Receiver General), appointed 1 January 2018
- Mr Robert Miles QC (The Attorney General)
- Mr Nathan Thompson (Chief Executive and Clerk of the Council)
- Mr Christopher Adcock LVO (Chief Finance Officer)
- Mr Martin Beaumont CVO, retired 31 October 2017
- Miss Kathryn Matthews

Report of Council *continued*



Eggs for sale, Brakenhurst Farm, Staffordshire.

- Mr Hugh Bullock
- The Marquess of Downshire, appointed 1 January 2018
- Mr Marcus Rose, appointed 1 January 2018

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

Responsibilities of the Proper Officers

The Proper Officers are responsible for ensuring that proper accounting records are maintained with respect to the affairs of the Duchy and for preparing the annual Report and Accounts in accordance with applicable law and International Financial Reporting Standards and for submitting the Report and Accounts annually to the Lords' Commissioners of the Treasury in an agreed form. The Proper Officers are also responsible for safeguarding the Duchy's assets and for maintaining a satisfactory system of control over transactions affecting Duchy property in accordance with the statutes.

In preparing the accounts the Proper Officers will:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- ensure that applicable accounting standards have been followed, subject to any

material departures disclosed and explained in the accounts; and prepare the accounts on a going concern basis.

The Proper Officers are responsible for the maintenance and integrity of the corporate and financial information included on the Duchy's website.

So far as the Proper Officers are aware, there is no relevant audit information of which the Duchy's auditors are unaware. The Proper Officers have taken all the steps that they ought to have taken as Proper Officers in order to make themselves aware of any relevant audit information and to establish that the Duchy's auditors are aware of that information.

The Council believes that it is good practice to review the external audit function in line with the Combined Code on Corporate Governance.

Sustainability Policy

The Duchy of Lancaster is committed to being environmentally responsible in the way it is run. The key components of the policy are addressing climate change, reducing waste and encouraging biodiversity.

The evaluation and operation of the policy and associated procedures is monitored and reviewed by the Management Board, with overview by Council, to ensure that they remain effective and appropriate to the activities of the Duchy.

Statement on corporate governance

The Combined Code on Corporate Governance (the UK Corporate Governance Code) issued by the Financial Reporting Council is widely acknowledged as representing best practice in governance. Although the Duchy is not obliged to comply with the requirements of the Code, Council nevertheless supports the principles and provisions set out in the code, and seeks to comply with the code in so far as it is applicable to the circumstances of the Duchy. A full compliance statement is produced internally and annually reviewed by Council. The only subcommittee of Council is the Audit Committee.

Internal control and risk

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

- a defined management structure with the appropriate delegation of authority to operational management;
- setting detailed annual budgets and reporting annual results against them;
- setting targets to measure financial and other performance;
- regular reviews of budget performance reports;
- physical and computer security procedures and contingency planning; and
- risk assessment reviews.

Information on the use of financial instruments by the Duchy and its management of financial risk is described on pages 14-15.

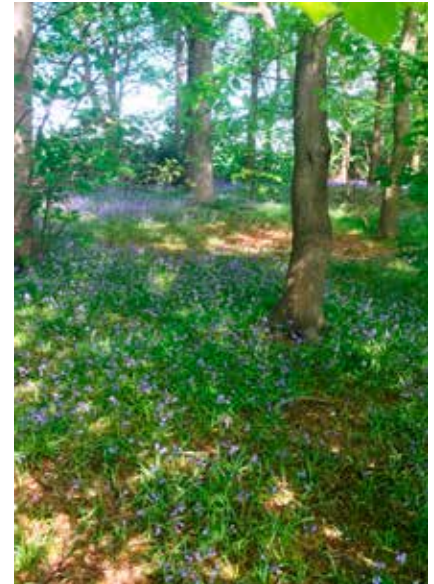
Going Concern

The Duchy's financial projections show that it has considerable financial resources and is forecast to operate within its available cash flows for a period of at least twelve months. The Proper Officers report that, following a review of the relevant financial information, they have a reasonable expectation that the Duchy has adequate resources to continue in operation for the foreseeable future. Accordingly, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Viability statement

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

Sir Alan Reid GCVO
Nathan Thompson
London
3 July 2018



Coronation Wood, Cheshire.

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

Opinion

We have audited the financial statements of Duchy of Lancaster for the year ended 31 March 2018 which comprise the Revenue Account Statement of Comprehensive Income, the Capital Account Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Capital and Reserves, the Statement of Cash Flows and the related notes. These accounts have been prepared under the accounting policies set out therein. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and as applied to the Duchy of Lancaster by the Accounts Direction given by the Treasury dated June 2018.

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Duchy as at 31 March 2018; and
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied to the Duchy of Lancaster by the Accounts Direction given by the Treasury dated June 2018; and
- have been prepared in accordance with the requirements of the Accounts Direction given by the Treasury dated June 2018.

This report is made solely to the Council, as a body. Our audit work has been undertaken so that we might state to the Council those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council as a body, for our audit work, for this report, or for the opinions we have formed.

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

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

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

Other information

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

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

material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters

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

- the information given in the Strategic Report and the Report of Council for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Report of Council have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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

We have nothing to report in respect of the following matters where we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Duchy, or returns adequate for our audit have not been received from branches not visited by us; or
- the Duchy financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Proper Officers' remuneration specified by Accounts Direction given by the Treasury dated June 2018 are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of the Proper Officers

As explained more fully in the Proper Officers' Responsibilities Statement on page 18, the Proper Officers are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Proper Officers determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Jamie Younger (Senior Statutory Auditor)
for and on behalf of Saffery Champness LLP
Chartered Accountants
Statutory Auditors
71 Queen Victoria Street
London EC4V 4BE
3 July 2018

Revenue Account Statement of Comprehensive Income

	Note	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Revenue	2	25,620	24,241
Operating costs	3	(4,517)	(4,519)
Administrative expenses		(1,620)	(1,511)
Operating surplus		19,483	18,211
Finance income	5	2,821	2,753
Finance costs	6	(2,156)	(1,880)
Net operating income		20,148	19,084
Development expenditure recovered from Capital		36	156
Net proceeds of bona vacantia	9	2,250	2,150
Payable for Duchy of Lancaster charitable purposes		(2,250)	(2,150)
Net surplus for the year		20,184	19,240
Other comprehensive income:			
Actuarial gain/(loss) on retirement benefit obligations	20	138	(440)
Total comprehensive income on Revenue account		20,322	18,800

Capital Account Statement of Comprehensive Income

	Note	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Net gain from fair value adjustment on investment property	12	12,223	12,259
Gain on disposal of investment property		229	486
Loss on disposal of property held for sale		–	(3)
Repayments to capital:			
Proportion of mineral royalties	3	66	62
Less recovery of capital valuation fees		(66)	(62)
Net income/(expenditure) from escheats		227	(3)
Net gain on the disposal of financial assets	14	545	4,521
Gain on dilapidations provision	17	3,838	3,000
Surplus for the year on Capital account		17,062	20,260
Other comprehensive income:			
Net gain/(loss) from fair value adjustment on other property	13	54	(61)
Loss from impairment on property held for sale		(17)	–
Net (loss)/gain on the revaluation of financial assets	14	(3,702)	3,767
Gain on financial derivatives		1,461	422
Total comprehensive income on Capital account		14,858	24,388

The notes to the accounts on pages 25 to 52 are an integral part of these financial statements.

Balance sheet

	Note	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Assets			
Non-current assets			
Investment property	12	564,734	549,951
Property, plant and equipment	13	6,095	6,041
Financial assets	14	65,268	70,459
Total non-current assets		636,097	626,451
Current assets			
Investment property assets held for sale	15	1,311	961
Trade and other receivables	16	3,411	2,660
Cash and cash equivalents		12,788	13,536
Total current assets		17,510	17,157
Total assets		653,607	643,608
Liabilities			
Current liabilities			
Trade and other payables	17	(20,515)	(22,579)
Total current liabilities		(20,515)	(22,579)
Non-current liabilities			
Borrowings	18	(97,000)	(97,000)
Interest rate swaps	18	(478)	(1,939)
Provisions	19	(2,044)	(3,242)
Retirement benefit obligations	20	260	(145)
Total non-current liabilities		(99,262)	(102,326)
Total liabilities		(119,777)	(124,905)
Net assets		533,830	518,703
Capital and reserves			
Capital Account		532,860	519,463
Capital hedging reserve	18	(478)	(1,939)
Revenue Account		2,365	2,234
Retirement benefit reserve		(917)	(1,055)
Total reserves		533,830	518,703

Sir Alan Reid GCVO
Nathan Thompson

3 July 2018

The notes to the accounts on pages 25 to 52 are an integral part of these

Statement of Changes in Capital and Reserves

	Note	Capital account		Revenue account		Total
		Capital reserve £'000	Capital hedging reserve £'000	Revenue reserve £'000	Retirement benefit reserve £'000	£'000
Balance as at 31 March 2016		495,497	(2,361)	2,222	(615)	494,743
Net surplus for the year		20,260	–	19,240	–	39,500
Other comprehensive income:						
Net loss from fair value adjustment on other property		(61)	–	–	–	(61)
Net gain on the revaluation of financial assets	14	3,767	–	–	–	3,767
Gain on financial derivatives		–	422	–	–	422
Actuarial loss on retirement benefit obligations	20	–	–	–	(440)	(440)
Less amounts payable to the Privy Purse		–	–	(19,228)	–	(19,228)
Balance as at 31 March 2017		519,463	(1,939)	2,234	(1,055)	518,703
Net surplus for the year		17,062	–	20,184	–	37,246
Other comprehensive income:						
Net gain from fair value adjustment on other property	13	54	–	–	–	54
Net loss on the revaluation of financial assets	14	(3,702)	–	–	–	(3,702)
Net loss from impairment on property held for sale		(17)	–	–	–	(17)
Gain on financial derivatives		–	1,461	–	–	1,461
Actuarial gain on retirement benefit obligations	20	–	–	–	138	138
Less amounts payable to the Privy Purse		–	–	(20,053)	–	(20,053)
Balance as at 31 March 2018		532,860	(478)	2,365	(917)	533,830

Statement of Cash Flows

	Note	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Cash generated from operating activities	22	20,156	22,291
Interest paid		(2,156)	(1,880)
Net cash from operating activities		18,000	20,411
Cash flows from investing activities			
Purchase and improvement of investment property		(3,638)	(46,189)
Purchase of owner occupied property		–	(68)
Purchase of property held for sale		(17)	–
Purchase of financial investments		(17,872)	(25,581)
Purchase of property, plant and equipment		(22)	(10)
Proceeds from disposal of investment properties		958	920
Proceeds from disposal of property held for sale		–	287
Proceeds from disposal of financial investments		19,906	33,348
Financial investment income		2,821	2,753
Net cash inflow/(outflow) from investing activities		2,136	(34,540)
Cash flows from financing activities			
Proceeds from additional borrowings		–	37,000
Payments made to the Privy Purse		(20,884)	(19,116)
Net cash (outflow)/inflow from financing activities		(20,884)	17,884
(Decrease)/increase in cash in the year		(748)	3,755
Cash and cash equivalents at start of year		13,536	9,781
Cash and cash equivalents at end of year		12,788	13,536

Notes to the accounts

Separate Statements of Comprehensive Income are presented for the Revenue account and the Capital account which represents a departure from the requirements of IFRS. IFRS require the presentation of a single Statement of Comprehensive Income. This departure is necessary due to the separate nature of the Duchy Revenue and Capital accounts, and because only the surplus on the Revenue account may be distributed to the Privy Purse and no distribution may be made of the proceeds from the disposal of capital assets or the gains or losses on their revaluation. The Statement of Changes in Capital and Reserves is also analysed between the Revenue and Capital accounts. These variations to IFRS are as specified in the Accounts Direction given by HM Treasury set out on pages 55-56.

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 55-56 and, except as disclosed above, in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as adopted by the European Union and as modified by HM Treasury.

At the date of approval of these financial statements the following standards and guidelines relevant to the Duchy of Lancaster were in issue but not effective for the current financial period:

IFRS 16 Leases	1 January 2019
IAS 40 Transfers of Investment Property	1 January 2018
IFRS 9 Available for Sale Assets	1 January 2018

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

(b) Significant judgements, key assumptions and estimates

Retirement benefit obligations

The Duchy recognises and discloses its retirement benefit obligation in accordance with the measurement and presentational requirement of IAS 19, 'Retirement Benefit Obligations.' The calculations include a number of judgements and estimations in respect of the expected rate of return on assets, the discount rate, inflation assumptions, the increase in salaries, and life expectancy, amongst others. Changes in these assumptions can have a significant effect on the value of the retirement benefit obligation. Further details of the assumptions are set out in note 20.

Bona Vacantia late claims fund

The Late Claims Fund is a provision for legitimate claims on Estates declared to be bona vacantia and whose assets have already been distributed. The provision is based on 30% of the Bona Vacantia account. This is a significant judgement based on the anticipated level of late claims (see note 19).

Financial instruments valuations

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

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

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

Notes to the accounts (continued)

Property valuations

Investment properties, owner occupied properties and investment 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.

(d) Valuation of property

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

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

- (i) Investment properties including land held for development and properties occupied by the Duchy are valued on the basis of Market Value, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had acted knowledgeably, prudently and without compulsion. Mineral bearing land is valued on the basis of Existing Use Value.
- (ii) Mineral and foreshore assets are only valued where a letting exists, where entry has occurred, or where an interest is likely to be sold in the next year for a capital premium.
- (iii) Castles and other historical properties which are not commercially let are valued at the lower of depreciated replacement cost and net realisable value, or, where there is no market in assets of that type and the property could not be physically reconstructed, a nil value is applied.

The indirect property investment is shown at latest formal independent valuation.

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

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

(e) Owner occupied property

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

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

Notes to the accounts (continued)

(f) Valuation of financial assets

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

(g) Depreciation

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

(h) Woodlands

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

(i) Recognition of income

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

(j) Mineral royalties

The receipts from mineral royalties are apportioned on the basis of one half to Capital and one half to Revenue.

(k) Pension liabilities and post retirement benefits

Defined benefit pension scheme current service costs relating to the year, together with the scheme interest cost less the expected return on the scheme assets for the year, are recorded in administrative expenses within the Revenue account. Actuarial gains and losses are recognised in the Revenue Account Statement of Comprehensive Income.

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

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

(l) Capitalisation of staff costs

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

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

(m) Bona vacantia

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

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

Notes to the accounts (continued)

(m) Bona vacantia (continued)

The proceeds from bona vacantia are accounted for by the Duchy in the year in which they are received and represent the proceeds received from estates settled by the Solicitor for the Affairs of the Duchy of Lancaster in the year ended 30 September 2017. The accounts of the Solicitor for the Affairs of the Duchy of Lancaster for the year ended 30 September 2017 are, for the purposes of information, set out on page 54.

(n) Heritage assets

There is no International Financial Reporting Standard equivalent to the UK GAAP Heritage Assets standard, FRS 30. However the Duchy continues to refer to those assets previously treated as Heritage Assets as such. Heritage assets are a collection of assets that the Duchy has held over the centuries. These assets are considered to be of historic and artistic importance and cover a range of items including paintings, furniture and works on paper. Certain Heritage Assets of the Duchy are held by museums, galleries or other institutions open to the public, where they are on loan and managed as part of their permanent collections.

The Duchy's Heritage Assets are managed by the Assistant Keeper of the Records who reports to the Keeper of the Records, being the Chief Executive of the Duchy. In addition, a register of the Duchy's Heritage Assets is maintained on a database and there are a number of paper records which relate to individual collections. All objects are subject to regular reviews to verify location and any change in conservation status. Where appropriate specialist conservation and curatorial advice is sought from relevant experts.

It is the intention that the Duchy's Heritage Assets will be held for the long term. In exceptional circumstances, Council may consider a disposal of objects and there are no current plans to add further to the collection.

The assets hold no material value except to the extent that they add to the cultural and historical wealth of the country and accordingly they are not shown as assets within these financial statements.

(o) Trade and other receivables

Trade and other receivables are stated at amortised cost less appropriate allowances for estimated irrecoverable amounts. Such allowances are based on an individual assessment of each receivable.

(p) Trade payables

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

(q) Borrowings

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

(r) Hedge accounting

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

Notes to the accounts (continued)

(r) 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 21 sets out details of the fair values of the derivative instruments used for hedging purposes.

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

(s) Cash flow hedges

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

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

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

2. Revenue

	2018 £'000	2017 £'000
Income from Property		
Commercial	18,171	16,190
Agricultural	4,669	4,691
Residential	2,334	2,205
Mineral rents and royalties	424	816
Indirect property investment income	22	339
Total	25,620	24,241

Notes to the accounts (continued)

3. Operating costs

	Repairs and other direct costs £'000	Repayments to Capital £'000	Total 2018 £'000	Total 2017 £'000
Expenditure on property				
Commercial	1,168	–	1,168	984
Agricultural	763	–	763	502
Residential	709	–	709	729
Mineral rents and royalties	–	66	66	62
	2,640	66	2,706	2,277
Staff costs, administration and professional fees	1,811	–	1,811	2,242
Total	4,451	66	4,517	4,519

4. Leasing: Operating leases with tenants

The Duchy of Lancaster leases out all of its investment properties under operating leases with, on average, 24 years remaining to expiry. The aggregate minimum rentals, excluding contingent rents, receivable under non-cancellable leases are as follows:

	2018 £'000	2017 £'000
Less than one year	19,809	19,590
Between two to five years	61,956	62,130
After five years	175,239	182,205
	257,004	263,925

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

5. Finance income

	2018 £'000	2017 £'000
Interest on other fixed interest stocks and unit trusts	500	555
Income from financial assets	2,333	2,209
Bank and other interest	23	23
Investment management fees	(35)	(34)
	2,821	2,753

6. Finance costs

	2018 £'000	2017 £'000
Loan interest	2,156	1,880

Notes to the accounts (continued)

7. Total comprehensive income for the year

	2018 £'000	2017 £'000
Total comprehensive income for the year is arrived at after charging:		
Staff costs (note 8(a))	2,581	2,353
Depreciation of Property, Plant and Equipment	22	10
Auditors' remuneration		
– audit services	26	25
– non-audit services	4	5

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:

	2018 £'000	2017 £'000
Wages and salaries	1,863	1,675
Social security costs	234	211
Pension contributions	484	467
	2,581	2,353

(b) The average number of employees (excluding the Chancellor and non-executive Council members) during the year was 21 (2017: 18).

(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 2018 £'000	Total 2017 £'000
Rt Hon David Lidington MP (appointed as Chancellor on 11 January 2018)	–	–	–	–
Rt Hon Patrick McLoughlin MP (retired as Chancellor on 11 January 2018)	–	–	–	–
Sir Alan Reid GCVO (appointed as Chairman on 1 January 2018)	18	–	18	–
Sir Michael Stevens KCVO (appointed 1 January 2018)	–	–	–	–
Sir Mark Hudson KCVO (retired 31 December 2017)	51	–	51	68
Mr Nathan Thompson	250	2	252	252
Mr Christopher Adcock LVO	155	2	157	157
Mr Martin Beaumont CVO (retired 31 October 2017)	11	–	11	18
Mr Robert Miles QC	15	–	15	15
Miss Kathryn Matthews	18	–	18	18
Mr Hugh Bullock	18	–	18	18
The Marquess of Downshire (appointed 1 January 2018)	5	–	5	–
Mr Marcus Rose (appointed 1 January 2018)	4	–	4	–

Notes to the accounts (continued)

8. Employee information (continued)

Performance payments relating to the previous financial year have been paid in the bands £85,001 to £90,000, one and £40,001 to £45,000, one.

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

	2018 £'000	2017 £'000
Mr Nathan Thompson	30	27
Mr Christopher Adcock LVO	20	20

9. Net proceeds from bona vacantia

	2018 £'000	2017 £'000
Proceeds from bona vacantia	5,705	5,779
Provisions for late claims transferred to Late Claims Fund	–	–
	5,705	5,779
Costs of palatinate administration and historical obligations (note 10)	(3,455)	(3,629)
	2,250	2,150

A charitable donation of £250,000 (2017: £nil) was made to the Duke of Lancaster Housing Trust arising from the surplus receipts of bona vacantia. The Chief Executive Officer acts as a trustee of the Duke of Lancaster Housing Trust.

10. Palatinate administration and historical obligations

	2018 £'000	2017 £'000
Administration of bona vacantia – costs met directly by the Duchy	128	144
Upkeep of castles and historic monuments	2,985	3,077
Rental and other income from castles	(4)	(5)
Savoy Chapel – stipends, running costs and repairs	7	103
Ceremonial, ancient stipends, charitable annuities and preservation of historic records	284	263
Administration of Duchy of Lancaster charitable funds	55	47
	3,455	3,629

Notes to the accounts (continued)

11. Analysis of Balance Sheet

	Revenue		Capital	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Assets				
Non-current assets				
Investment property	–	–	564,734	549,951
Property, plant and equipment	–	–	6,095	6,041
Financial assets	3,620	4,142	61,648	66,317
Total non-current assets	3,620	4,142	632,477	622,309
Current assets				
Investment property assets held for sale	–	–	1,311	961
Trade and other receivables	3,411	2,660	–	–
Cash and cash equivalents	11,329	9,630	1,459	3,906
Balances due from Capital	4,863	6,446	–	–
Total current assets	19,603	18,736	2,770	4,867
Total assets	23,223	22,878	635,247	627,176
Liabilities				
Current liabilities				
Trade and other payables	(19,991)	(18,312)	(524)	(4,267)
Balances due to Revenue	–	–	(4,863)	(6,446)
Total current liabilities	(19,991)	(18,312)	(5,387)	(10,713)
Non-current liabilities				
Borrowings	–	–	(97,000)	(97,000)
Interest rate swaps	–	–	(478)	(1,939)
Provisions	(2,044)	(3,242)	–	–
Retirement benefit obligations	260	(145)	–	–
Total non-current liabilities	(1,784)	(3,387)	(97,478)	(98,939)
Total liabilities	(21,775)	(21,699)	(102,865)	(109,652)
Net assets	1,448	1,179	532,382	517,524
Capital and reserves				
Revenue Account	2,365	2,234	–	–
Capital Account	–	–	532,382	517,524
Retirement benefit reserve	(917)	(1,055)	–	–
Total reserves	1,448	1,179	532,382	517,524

Notes to the accounts (continued)

12. Investment Property

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

	Commercial and indirect property investment £'000	Agricultural woods minerals foreshores £'000	Residential £'000	Land held for development £'000	Total £'000
Value at 1 April 2017	313,487	173,716	58,444	4,304	549,951
Purchases at cost	1,833	451	1,354	–	3,638
Transfers to investment property held for sale	–	–	(350)	–	(350)
Disposals	(333)	(8)	(387)	–	(728)
Change in fair value	11,579	3,860	(3,012)	(204)	12,223
Value at 31 March 2018	326,566	178,019	56,049	4,100	564,734

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 £3,085,000 (2017: £4,077,000). Sales proceeds are net of expenses of sale and development costs charged from Revenue.

At 31 March 2018 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 2018 by valuer is as follows:

Knight Frank	55%
Savills	44%
Others	1%

Notes to the accounts (continued)

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

	Property type	Fair value at 31 March 2018 £'000	Valuation techniques	Unobservable inputs	Range of unobservable inputs (where meaningful)	
Agricultural & forestry	Agricultural	145,770	Yield methodology	Rental values	–	
				Capitalisation rate	Farms: 1.5% to 2.8%	
						Bare land: 1.2% to 1.8%
	Forestry	9,246	Adjusted sales comparison approach	Adjusted comparable vacant possession values	£958/acre to £11,500/acre (average £6,223/acre)	
				Discount rate for terminal value	4.5% to 5%	
Estimate of period until vacant possession achieved				0 to 34 years (average 4.27 years)		
Development land	4,100	Discounted cash flow	Discount rate	7% to 40% (average 17.4%)		
			Risk factor	10% to 70% (average 47%)		
			Time to completion	3 to 25+ years (average 10.18 years)		
	Other rural assets	23,003	Yield methodology	Rental values	£125/acre to £25,000/acre	
				Capitalisation rate	3.4% to 20%	
	Total	182,119				
Commercial	Urban commercial	309,675	Yield methodology	Rental values	Industrial: £2.0 to £15.0 psf Office: £12.5 to £67.5 psf Retail: £24.5 to £225.0 psf	
				Capitalisation rate	Industrial: 4.5% to 7.1% Office: 2.9% to 8.8% Retail: 4.5% Other: 4.2% to 11.2%	
	Rural commercial	16,891	Yield methodology	Rental values	–	
				Capitalisation rate	5% to 14% (average 10.3%)	
		Total	326,566			
Residential		56,049	Adjusted sales comparison approach	Adjusted comparable vacant possession values	–	
				Discount rate for terminal value	4.5% to 6.5%	
				Estimate of period until vacant possession achieved	0 to 52 years (average 6.84 years)	
				Total	56,049	

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 2016	6,034	17	300	6,351
Additions during the year	68	–	10	78
Change in fair value	(61)	–	–	(61)
Less: disposals during the year	–	–	(16)	(16)
Balance at 31 March 2017	6,041	17	294	6,352
Accumulated depreciation				
Balance at 1 April 2016	–	17	300	317
Charged during the year	–	–	10	10
Less: disposals during the year	–	–	(16)	(16)
Balance at 31 March 2017	–	17	294	311
Net Book Value 31 March 2017	6,041	–	–	6,041
Cost or valuation				
Balance at 1 April 2017	6,041	17	294	6,352
Additions during the year	–	–	22	22
Change in fair value	54	–	–	54
Less: disposals during the year	–	–	(3)	(3)
Balance at 31 March 2018	6,095	17	313	6,425
Accumulated depreciation				
Balance at 1 April 2017	–	17	294	311
Charged during the year	–	–	22	22
Less: disposals during the year	–	–	(3)	(3)
Balance at 31 March 2018	–	17	313	330
Net Book Value 31 March 2018	6,095	–	–	6,095

Notes to the accounts (continued)

14. Financial assets

	Capital Financial Assets			Total Capital Financial Assets £'000	Other financial assets	Total £'000
	Fixed interest unit trust £'000	Equities and bonds £'000	Private equity £'000		Fixed income unit trust £'000	
Value at 31 March 2016	3,106	56,056	5,691	64,853	4,772	69,625
Purchases	–	25,581	–	25,581	–	25,581
Sale proceeds	–	(30,581)	(1,824)	(32,405)	(943)	(33,348)
Gain on sale	–	3,624	897	4,521	117	4,638
Change in fair value	1,389	2,004	374	3,767	196	3,963
Value at 31 March 2017	4,495	56,684	5,138	66,317	4,142	70,459
Purchases	–	17,871	–	17,871	–	17,871
Sale proceeds	–	(17,871)	(1,512)	(19,383)	(523)	(19,906)
Gain on sale	–	103	442	545	46	591
Change in fair value	(1,032)	(2,423)	(247)	(3,702)	(45)	(3,747)
Value at 31 March 2018	3,463	54,364	3,821	61,648	3,620	65,268

The changes in market values are recognised in the Capital Account Statement of Comprehensive Income apart from the change in market value of the Fixed interest unit trust which is recognised in note 19.

All financial assets except the private equity funds are listed on recognised stock exchanges, are authorised unit trusts, or are authorised open ended investment companies. Other financial assets are investments held to cover late claims liabilities (note 19).

Notes to the accounts (continued)

15. Investment property assets held for sale

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

	Commercial and indirect property investment £'000	Agricultural woods minerals foreshores £'000	Residential £'000	Land held for development £'000	Total £'000
Value at 1 April 2017	–	961	–	–	961
Purchases at cost	–	17	–	–	17
Transfers from investment property	–	–	350	–	350
Impairment	–	(17)	–	–	(17)
Value at 31 March 2018	–	961	350	–	1,311

At the year end the Duchy was actively marketing properties for sale at the fair values less costs to sell stated above and these are expected to be sold within 12 months of the balance sheet date.

Notes to the accounts (continued)

16. Trade and other receivables

	2018 £'000	2017 £'000
Trade receivables (rents)	1,017	745
Other receivables	719	139
Prepayments and accrued income	1,675	1,776
	3,411	2,660

As of 31 March 2018 trade receivables of £1,017,000 (2017: £745,000) were due but not impaired.

The ageing analysis of these trade receivables is as follows:

	2018 £'000	2017 £'000
Under 3 months	890	707
3 to 12 months	53	11
Over 12 months	74	27

The ageing of impaired receivables is as follows:

	2018 £'000	2017 £'000
Under 3 months	268	233
3 to 12 months	88	54
Over 12 months	69	42

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:

	2018 £'000	2017 £'000
At 1 April	329	357
Provision for receivables impairment	107	(20)
Receivables written off	(11)	(8)
At 31 March	425	329

The recognition and release of the provision for impaired receivables has been included in the Revenue Account Statement of Comprehensive Income.

The other classes within trade and other receivables do not contain impaired assets.

Notes to the accounts (continued)

17. Trade and other payables

	2018 £'000	2017 £'000
Amounts falling due within one year:		
Trade payables	1,500	1,903
Other taxes and social security	957	911
Other payables	3,038	3,020
Late claims provision	1,000	900
Accruals and deferred income	6,446	9,440
Due to the Privy Purse	2,533	3,364
Due to Duchy of Lancaster charitable funds	5,041	3,041
	20,515	22,579

Movements in other payables include the following:

	2018 £'000	2017 £'000
Dilapidations provision at 1 April	3,038	6,038
Gain on dilapidations provision	(3,038)	(3,000)
Dilapidations provision at 31 March	–	3,038

18. Borrowings

	Less than 1 year £'000	1 to 5 years £'000	Over 5 years £'000	2017 Total £'000
Borrowings	–	46,000	51,000	97,000
Interest rate swaps	–	1,040	899	1,939
	Less than 1 year £'000	1 to 5 years £'000	Over 5 years £'000	2018 Total £'000
Borrowings	–	46,000	51,000	97,000
Interest rate swaps	–	507	(29)	478

The total borrowings of £97m consists of 6 loans with the following terms; Loan of £9m repayable June 2024, interest in the year is at a floating rate which has been fully swapped to a fixed rate of 3.98%. Loan of £31m repayable October 2021, interest in the year is at a floating rate, £11m of the loan has been swapped to a fixed rate of 3.3875%. Loan of £10m repayable February 2020, interest in the year is at a floating rate, £2.5m of the loan has been swapped to a fixed rate of 2.635%. Loan of £5m repayable July 2020, interest in the year is at a floating rate which has been fully swapped to a fixed rate of 2.914%. Loan of £5m repayable October 2025, interest in the year is at a floating rate, £2.5m of the loan has been swapped to a fixed rate of 3.0%. In the year the Duchy increased its borrowing by £37m, which is repayable September 2026, interest in the year is at a floating rate, £18.5m of the loan has been swapped to a fixed rate of 1.9725%. Floating rate is set at three month LIBOR. The borrowings are all unsecured.

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

The Duchy has six interest rate derivatives designated into cash flow hedge relationships on loan facilities totalling £48.5m. As at 31 March 2018 a loss of £0.478m was recognised in Other Comprehensive Income in the Capital Accounts Statement in respect of the fair value movement of the cash flow hedging derivatives.

Notes to the accounts (continued)

19. Provisions for liabilities and charges

The Late Claims Fund was established to provide a form of insurance against legitimate claims on estates declared to be bona vacantia and whose assets have already been distributed. Income earned on the assets of the fund is retained to meet claims. Any surplus on the fund is payable to the Duchy of Lancaster charitable funds. The fund is separately invested in a unit trust (note 14). The movements of the fund are as follows:

	2018	2017
	£'000	£'000
Provisions for late claims received from the bona vacantia account	41	5
Increase in value of investments	1	313
Claims paid during the year	(1,140)	(948)
Deficit for the year	(1,098)	(630)
Late Claims Fund balance at 1 April	4,142	4,772
Late Claims Fund balance at 31 March	3,044	4,142
	2018	2017
	£'000	£'000
Shown as:		
Included in Trade and other payables	1,000	900
Included in Non-current liabilities – provisions	2,044	3,242

Notes to the accounts (continued)

20. Retirement benefit obligations

A full actuarial valuation was carried out at 31 March 2015 and is being updated to 31 March 2018 by a qualified independent actuary. The major assumptions used by the actuary were:

	31 March 2018 % pa	31 March 2017 % pa	31 March 2016 % pa	31 March 2015 % pa	31 March 2014 % pa
Rate of increase in pensionable salaries	4.5	4.6	4.1	4.2	4.8
Rate of increase in pensions in payment	2.0	2.1	1.6	1.7	2.3
Discount rate	2.5	2.5	3.4	3.0	4.3
Inflation assumption (RPI)	3.0	3.1	2.6	2.7	3.3
Inflation assumption (CPI)	2.0	2.1	1.6	1.7	2.3

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

	Mortality assumption	Life expectancy
Pensioners now aged 60		
Males	S2PA YOB with CMI 2016	26.5
Females	projection and a long term rate of improvement of 1.25%	28.6
Future pensioners from age 60 but currently aged 40		
Males	S2PA YOB with CMI 2016	28.1
Females	projection and a long term rate of improvement of 1.25%	30.2

At 31 March 2018, the weighted-average duration of the Scheme's liabilities was approximately 12 years.

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

	Value at 31 March 2018 £'000	Value at 31 March 2017 £'000	Value at 31 March 2016 £'000	Value at 31 March 2015 £'000	Value at 31 March 2014 £'000
Equities	3,828	3,926	3,770	3,994	3,453
Gilts	5,612	5,608	1,074	1,060	872
Corporate Bonds	–	–	3,885	3,891	3,878
Cash	19	35	34	45	14
Total market value of assets	9,459	9,569	8,763	8,990	8,217
Present value of Scheme benefits	(9,199)	(9,714)	(8,760)	(9,939)	(9,451)
Surplus/(deficit) in the Scheme	260	(145)	3	(949)	(1,234)

Notes to the accounts (continued)

20. Retirement benefit obligations (continued)

Analysis of the amount charged to operating profit:

	2018 £'000	2017 £'000
Current service cost	68	52
Past service cost	–	–
Scheme administrative cost	43	29
Total operating charge	111	81

Analysis of the amount credited to other finance income:

	2018 £'000	2017 £'000
Interest income on Scheme assets	237	294
Interest on pension Scheme liabilities	(237)	(288)
Net interest on the net defined benefit asset/(liability)	–	6

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

	2018 £'000	2017 £'000
Net remeasurement loss/(gain) – financial	(107)	1,507
Net remeasurement loss/(gain) – demographic	(61)	(288)
Net remeasurement loss/(gain) – experience	(141)	(33)
Return on assets, excluding interest income	171	(746)
Total remeasurement of net defined benefit (asset)/liability to be shown in OCI	(138)	440

Movement in Scheme liabilities during the year

	2018 £'000	2017 £'000
Liabilities at start of year	9,714	8,760
Movement in year:		
Current service cost	68	52
Interest cost	237	288
Contributions paid by Scheme members	2	3
Benefits paid	(513)	(575)
Net remeasurement loss/(gain) – financial	(107)	1,507
Net remeasurement loss/(gain) – demographic	(61)	(288)
Net remeasurement loss/(gain) – experience	(141)	(33)
Liabilities at end of year	9,199	9,714

Notes to the accounts (continued)

20. Retirement benefit obligations (continued)

Movement in Scheme assets during the year

	2018 £'000	2017 £'000
Assets at start of year	9,569	8,763
Movement in year:		
Interest income on Scheme assets	237	294
Return on assets, excluding interest income	(171)	746
Contributions (total paid by employer and scheme members)	380	370
Benefits paid	(513)	(575)
Scheme administrative cost	(43)	(29)
Assets at end of year	9,459	9,569
	2018 £'000	2017 £'000
Scheme assets	9,459	9,569
Scheme liabilities	(9,199)	(9,714)
Net (liability)/asset arising from retirement benefit obligations	260	(145)
	Value at 31 March 2018 £'000	Value at 31 March 2017 £'000
Real Return Fund		
LGIM UK Equity Index Fund	3,828	3,926
	3,828	3,926
Bonds		
LGIM 2027 Index-Linked Gilt Fund	2,805	2,821
LGIM 2035 Index-Linked Gilt Fund	2,807	2,787
	5,612	5,608
Cash and net current assets	19	35
Total	9,459	9,569

Notes to the accounts (continued)

20. Retirement benefit obligations (continued)

Characteristics and risks associated with the Scheme

(a) Information about the characteristics of the Scheme

- (i) The Scheme provides pensions in retirement and death benefits to members. Pension benefits are linked to a member's final salary and their length of service.
- (ii) The Scheme is a registered scheme under UK legislation.

The scheme is subject to the scheme funding requirements outlines in UK legislation. Under rule 23 of the Scheme's trust deed and rules dated 31 March 1995, the Duchy has a right to a refund of any surplus in the Scheme if the Scheme winds up, although the Trustees do have the power to augment benefits before any surplus is paid to the Duchy. However, given the power to wind up the Scheme lies with the Duchy, there is no additional liability recognised on the balance sheet as a result of the recovery plan dated 12 November 2015.

- (iii) The Scheme was established from 1 April 1995 under trust and is governed by the Scheme's trust deed and rules dated 31 March 1995. The Trustees are responsible for the operation and the governance of the Scheme, including making decisions regarding the Scheme's funding and investment strategy in conjunction with the Duchy.

(b) Information about the risks of the Scheme to the Duchy

The 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 any amendments, curtailments and settlements

There have been no amendments, curtailments or settlements over the financial year.

Sensitivity analysis

A sensitivity analysis of the principal assumptions used to measure the Scheme's defined benefit obligation as at 31 March 2018 is:

	Change in assumption	Impact on the Scheme's defined benefit obligation
Discount rate	Decrease by 1.0% pa	Increase by 13%
Rate of inflation rate (CPI)	Increase by 0.2% pa	Increase by 2%
Mortality (increase life expectancy by 1 year)	Increase by 1 year	Increase by 5%

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

The Scheme's investment strategy

The Scheme's investment strategy is to invest broadly 40% in return seeking assets and 60% in matching assets. This strategy is overweight in (well diversified) return seeking assets when compared to the Scheme's liability profile, but is consistent with the Trustees' and Duchy's attitude to risk.

Notes to the accounts (continued)

20. Retirement benefit obligations (continued)

Expected future cashflows to and from the Plan

The most recent formal actuarial valuation of the Scheme was at 31 March 2015 and revealed a funding deficit of £2,300,000. In line with the schedule of contributions dated 12 November 2015, the Duchy agreed to pay £285,864 per annum (increasing annually at 3% per annum) from 1 January 2016 with the view to eliminating the shortfall by 30 April 2022. The Duchy also agreed to pay contributions of £50,000 per annum to meet the costs of future accrual of benefits and insurance premiums for death in service lump sums for active members of the Scheme. In addition, the Duchy will meet the cost of administrative expenses and Pension Protection Fund levies for the Scheme.

In accordance with the current schedule of contributions and recovery plan the Duchy is expected to pay contributions of around £306,000 over the next accounting period to eliminate the deficit and a further £50,000 to meet the cost of the future benefit accrual and insurance premiums for death in service lump sums for active members of the Scheme. In addition, the Duchy is expected to meet the cost of administrative expenses and Pension Protection Fund levies for the Scheme. 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 2018 which is awaited.

The liabilities of the Scheme are based upon the current value of expected benefit payment cashflows to members of the Scheme over the next 60 or so years. The average duration of the liabilities is approximately 12 years (calculated on the proposed IAS 19 assumptions at 31 March 2018).

Notes to the accounts (continued)

21. Fair value measurements

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

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

The following table sets out the Duchy's assets and liabilities that are measured and recognised at fair value at 31 March 2018.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets				
Available-for-sale equity securities	61,648	3,620	–	65,268
Total recurring financial assets	61,648	3,620	–	65,268
Financial liabilities				
Interest rate swaps	–	478	–	478
Total recurring financial liabilities	–	478	–	478
Non-financial assets:				
Investment properties	–	–	564,734	564,734
Owner occupied properties	–	–	6,095	6,095
Total recurring non-financial assets	–	–	570,829	570,829
Non-recurring fair value measurements				
Property held for sale	–	–	1,311	1,311
Total non-recurring assets	–	–	1,311	1,311

Notes to the accounts (continued)

21. Fair value measurements (continued)

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

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

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

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

	Unlisted equity securities £'000	Investment property £'000	Owner occupied property £'000	Total £'000
Unrealised gains/(losses) recognised in profit or loss attributable to assets held at the end of the reporting period	–	12,223	54	12,277

Notes to the accounts (continued)

21. Fair value measurements (continued)

The following table sets out the valuation techniques used in the determination of fair values within Level 3 including the key unobservable inputs used and the relationship between unobservable inputs to fair value.

Item and valuation approach	Key unobservable inputs	Relationship between unobservable inputs to fair value
<p>Investment property</p> <p>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.</p> <p>The methodologies applied by the valuers include the following:</p> <p>Investment Method:</p> <p>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.</p> <p>Residual Method:</p> <p>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.</p>	<p>Market rents are assessed on a tenant by tenant basis taking into account significant variation between location, sector, size and quality.</p> <p>The estimated market value of a completed project, development costs and expected appreciation in the price.</p>	<p>The higher the discount rate, terminal yield and expected vacancy rate the lower the fair value.</p> <p>The lower the development costs the greater the anticipated market value.</p>

Fair values of trade receivables and payables, short term investments, Unsecured bank overdrafts and cash and cash equivalents are assumed to approximate to cost due to the short term maturity of the instruments and as the impact of discounting is not significant.

Notes to the accounts (continued)

21. Fair value measurements (continued)

Item	Valuation approach and inputs used	
Financial Assets	The fair values of financial assets and financial liabilities have been determined with reference to available market information at the balance sheet date.	Level 2
Interest rate swaps	Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contracted interest rates, discounted at a rate that reflects the credit risk of various counterparties.	Level 2

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

	2018 £'000	2017 £'000
Net surplus on Revenue account	20,184	19,240
Net surplus on Capital account	17,062	20,260
Adjusted for:		
Depreciation	22	10
Current service costs less contributions to pension scheme	(267)	(292)
Net finance income	(665)	(873)
(Increase)/decrease in valuation of other financial investments	45	(196)
Net gain from fair value adjustment on investment property	(12,223)	(12,259)
Gain on disposal of investment property	(229)	(486)
Loss on disposal of property held for sale	-	3
Net gain on the disposal of financial assets	(545)	(4,521)
Net gain on the disposal of other financial investments	(46)	(117)
(Increase)/decrease in receivables	(751)	1,213
(Decrease)/increase in payables	(2,431)	309
Net cash inflow from operating activities	20,156	22,291

Notes to the accounts (continued)

22. Reconciliation of Revenue account operating surplus to net cash inflow from operating activities (continued)

Analysis of changes in net debt:

	1 April 2017 £'000	Cash flow £'000	Acquisitions and disposals £'000	Fair value gains and losses £'000	Interest charge £'000	31 March 2018 £'000
Cash and bank balances	13,536	(748)	–	–	–	12,788
Interest rate swaps	(1,939)	–	–	1,461	–	(478)
Borrowings	(97,000)	–	–	–	–	(97,000)
Retirement benefit obligations	(145)	–	–	405	–	260
Trade payables	(21,679)	2,164	–	–	–	(19,515)
Provisions	(4,142)	1,097	–	1	–	(3,044)
	(111,369)	2,513	–	1,867	–	(106,989)

Balances at 31 March 2018 comprise:

	Non- current assets £'000	Current assets £'000	Current liabilities £'000	Non- current liabilities £'000	Total £'000
Cash and bank balances	–	12,788	–	–	12,788
Interest rate swaps	–	–	–	(478)	(478)
Borrowings	–	–	–	(97,000)	(97,000)
Retirement benefit obligations	9,459	–	–	(9,199)	260
Trade payables	–	–	(19,515)	–	(19,515)
Provisions	–	–	(1,000)	(2,044)	(3,044)
	9,459	12,788	(20,515)	(108,721)	(106,989)

23. Related party transactions

A charitable donation of £250,000 (2017: £nil) was made to the Duke of Lancaster Housing Trust arising from the surplus receipts of bona vacantia (see note 9). The Chief Executive Officer acts as a trustee of the Duke of Lancaster Housing Trust.

Notes to the accounts (continued)

24. Financial risk management

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

Market Risk – cash flow and fair value interest rate risk

The Duchy's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Duchy to cash flow interest rate risk. Borrowings issued at fixed rates expose the Duchy to fair value interest rate risk.

The Duchy performs sensitivity analyses on its covenants looking at all 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. The Duchy has swapped 50% of its loans as detailed in note 18.

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

Liquidity risk

Although current liabilities are in excess of current assets, the majority of the Duchy's financial liabilities all fall due within one year and notes 17-20 provide further details of these liabilities. Liquidity risk is minimised by holding over £54m in liquid asset, specifically equities and bonds, within the financial portfolio. The Duchy continually monitors its liquidity position through cashflow forecasts. It is not possible to state the maturity profile of the Duchy's Late Claims Fund provision (see note 19) and its retirement benefit obligations (see note 20) due to the uncertain timing of their potential crystallisation.

Credit risk

The Duchy uses external investment consultants to assess the credit quality of banks and financial institutions based on their financial position, experience of past performance and other factors as deemed relevant. As set out in note 16 there is no significant concentration of credit risk with respect to trade receivables as the Duchy has a large number of tenants.

Capital management

The Duchy continually monitors its financial situation by means of regular management information and accounts. This ensures that the covenants in relation to the bank loan facility are adhered to.

25. Capital Commitments

As at 31 March 2018 the Duchy had entered into contracts for major improvements works that gave rise to a capital commitment of £4,630,000 (2017: £815,000).

Duchy of Lancaster Rural Surveys

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

	Hectares
The Staffordshire Survey	2,970
Needwood estate	
The Cheshire Survey	1,402
Crewe estate	
Marbury estate	
The Lancashire Survey	3,840
Whitewell estate	
Myerscough estate	
Wyreside estate	
Salwick estate	
The Yorkshire Survey	6,605
Cloughton estate	
Pickering estate	
Marishes estate	
Goathland estate	
Pontefract estate	
The Southern Survey	3,668
Higham Ferrers estate	
Castleton estate	
Ogmore estate	
Lincolnshire estate	
	18,485

Accounts of the Solicitor for the Affairs of the Duchy of Lancaster for the year ended 30 September 2017

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 215 intestate estates (2016: 210) and 2,408 dissolved companies (2016: 3,102) were formally reported.

Income and expenditure account for the year ended 30 September 2017

	2017 £
Income	
Monies received from dissolved companies	6,109,950
Monies received from intestate estates	2,277,270
Interest and other	5,651
Monies received	8,392,871
Expenditure	
Payments to next of kin	(760,959)
Company restoration	(1,259,119)
Ex-gratia payments to claimants	(202,268)
Administration costs	(934,412)
Net income less expenditure	5,236,113
Paid to the Duchy of Lancaster	(2,092,493)
Net income for the year ended 30 September 2017	3,143,620
Cash balances at 1 October 2016	5,357,727
Net income for the year ended 30 September 2017	3,143,620
Cash balances at 30 September 2017	8,501,347

Balance sheet as at 30 September 2017

	2017 £
Current assets	
Cash and deposits	8,501,347
	8,501,347
Current liabilities	
The Duchy of Lancaster	(2,596,402)
Other creditors	(1,937,326)
	(4,533,728)
Total assets less current liabilities	3,967,619
Representing:	
Estates under administration	3,967,619

Accounts direction given by HM Treasury

Operating Review

1. The Duchy of Lancaster shall prepare accounts for the financial year ended 31 March 2018 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 2016. It shall be reproduced as an appendix to the accounts.

Richard Brown
Treasury Officer of Accounts

June 2018

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 2015 and the contribution rate subsequently adjusted to ensure that the deficit is forecast to be made good within the term recommended by the actuary and agreed by the Council and trustees after discussion with HM Treasury. Accordingly, the pension reserve required by IAS 19 shall be a separate non-distributable reserve within the revenue account balance sheet. The next formal valuation of the pension scheme will be undertaken during 2018.



DUCHY *of* LANCASTER

Annual Report

Report and accounts of the Duchy of Lancaster for the year ended 31 March 2018

www.duchyoflancaster.co.uk

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

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

The paper used for this publication is Cocoon Silk made from 60% recycled material.

