

# DUCHY *of* LANCASTER

## 2010



REPORT AND ACCOUNTS OF THE DUCHY OF LANCASTER  
FOR THE YEAR ENDED 31 MARCH 2010



**Duchy of Lancaster**  
**Report and accounts of the Duchy of Lancaster for the year ended**  
**31 March 2010**

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

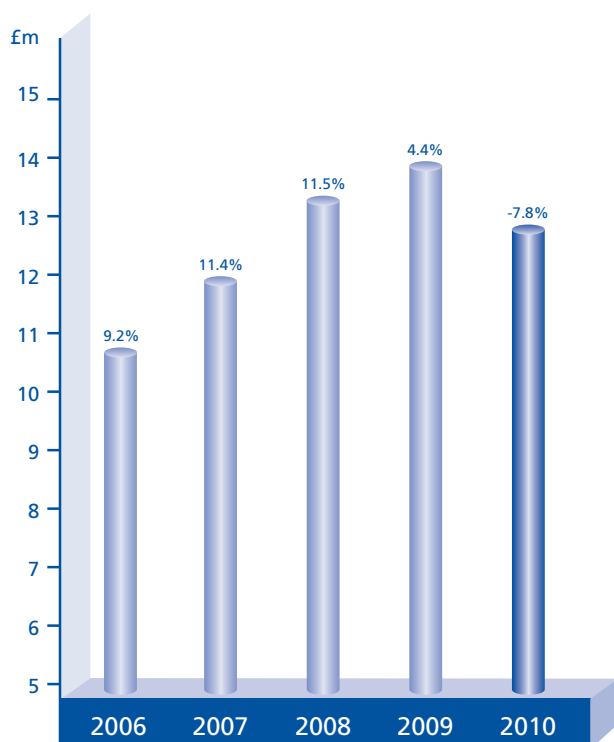
# Duchy of Lancaster

## Financial Highlights for the year to 31 March 2010

<b>Revenue</b>	<b>2010 £m</b>	<b>2009 £m</b>	<b>Change %</b>
• Total gross income	<b>17.06</b>	17.54	-2.7%
• Net operating income	<b>12.86</b>	13.94	-7.8%
• Surplus payable to the Keeper of the Privy Purse	<b>13.26</b>	13.27	-0.0%
<b>Capital</b>	<b>2010 £m</b>	<b>2009 £m</b>	<b>Change %</b>
• Total capital value	<b>348.21</b>	322.66	+7.9%

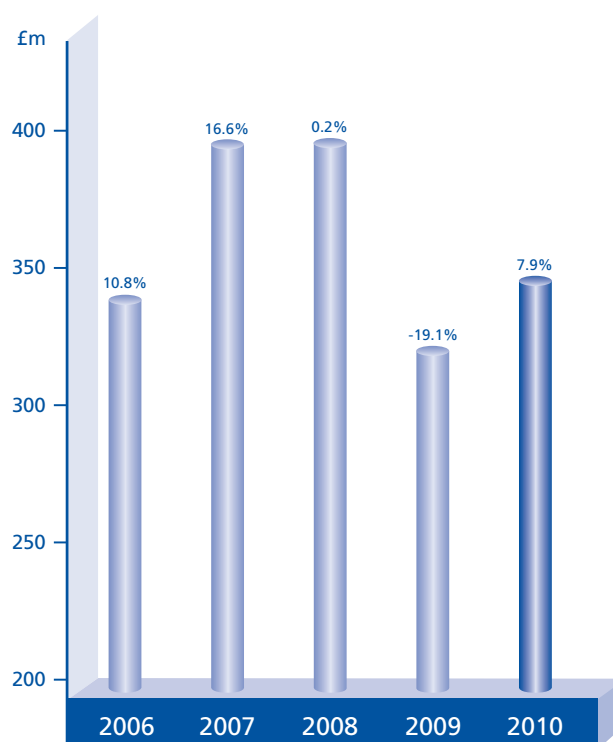
### Net Operating Income (£m)

Change over previous year (%)



### Total Capital Value (£m)

Change over previous year (%)



# Duchy of Lancaster

## Chairman's Statement

The year to 31 March 2010 had a more successful outturn than I anticipated a year ago, and the Duchy achieved a net surplus delivered to the Keeper of the Privy Purse of £13.3 million, matching that of the previous year. I am grateful to all our staff for their contribution to that result. It was pleasing that our Financial Controller, Steve Davies, was appointed a Member of the Royal Victorian Order (MVO) during the year.

Baroness Royall of Blaisdon, Leader of the House of Lords, succeeded Liam Byrne MP as Chancellor of the Duchy of Lancaster in June 2009. Since the year-end, and following the General Election of May 2010, Lady Royall has been succeeded as Chancellor of the Duchy and Leader of the House of Lords by Lord Strathclyde and we look forward to working with him. I thank Lady Royall for all the advice and support she gave us.

In March 2010, The Queen, Duke of Lancaster attended a dinner in London's Lanesborough Hotel given in her honour by the Chancellor and sixteen former Chancellors. Beef from Burholme Farm on the Duchy's Lancashire Survey was served.

The Duchy of Lancaster is entwined in the fabric of this country and the Council sees a proper regard for our Royal and historic heritage as an important obligation and asset. Lancaster Castle – in part one of Her Majesty's prisons, in part two working courtrooms and in part accessible to visitors – is at the centre of the Duchy and we were delighted to host a visit there by HRH The Princess Alexandra. Another Duchy working castle is that of Tutbury in

Staffordshire in which Mary Queen of Scots was once imprisoned. I was honoured to be invited to open an exhibition in the British Museum containing coins from the 'Tutbury Hoard' – a royal Lancastrian treasure-chest lost in the River Dove below the castle in the War of the Roses and unexpectedly unearthed during bridge building work in 1831. In October, the Council hosted an enjoyable dinner at Tutbury Castle for tenants of the Needwood estate. A day or two later, I tackled the short but steep walk up to the ruins of Pevensey Castle in Derbyshire, with its spectacular views over the village of Castleton. Later in the autumn, I visited another ruined castle, when I toured the Duchy estate near Ogmores in south Wales. Involvement today with parts of the Duchy held for several centuries puts an intriguing perspective on our investment plans.

It is heartening that, despite the difficult economic conditions, the Trustees of the two main Duchy charities, the Benevolent Fund and the Jubilee Trust, were able to make grants at the same level established in earlier years. I hope that during the next year we shall see construction commence of the first houses for rent provided by the Duke of Lancaster Housing Trust. All these activities form part of our contribution to the communities in which we hold property.

Finally, may I thank my fellow Council members for their help and commitment in formal meetings, in consultations and on estate visits.

Shuttleworth

# Duchy of Lancaster

## Report of Council

### Chief Executive's Operating Review

#### 2010 Results

Following the severe downturn in most investment markets, it was remarkable to witness the initially faltering, and then clearly definable, recovery of our primary markets over the last year. However, recent events have shown such recovery as there is to be fragile with uncertainty evident amongst investors and economic forecasters alike. There is a degree of doubt as to both the stability of any investment class, and the source of sustainable returns, whether capital or income.

Net Operating Income fell from an exceptional £13.9m in 2009 to a more sustainable £12.9m while gross operating costs remained well within our target of 25% of gross income.

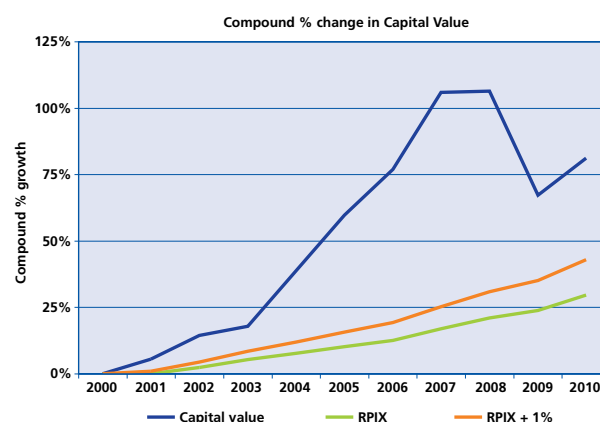
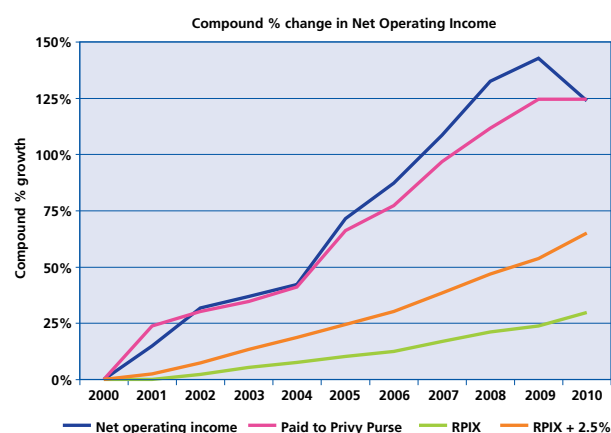
In addition, there has been a strong recovery from the heavy fall in capital values experienced last year, with the net asset value increasing from £322.7m in 2009 to £348.2m (+7.9%) this year.

The financial targets set by the Duchy Council balance the need for income against the long term protection of capital. As usual, the Duchy measures such performance on a unitised basis so as to accurately measure the underlying performance of the portfolio taking into consideration both investment and disinvestment during the year. The Total Return from the portfolio on the unitised basis is 11.9% (2009: -15.6%), split between a net income yield of 4% (2009: 3.5%) and capital growth of 7.9% (2009: -19.1%). This is the first year that the Duchy has attained the target of a net income yield of 4.0%, albeit that the income growth per unit was down by 7.8%. Such a reduction is primarily due to the expiry of leases and the refurbishment of previously income producing property on the Savoy Estate as well as a reduction in yield within the financial portfolio. It is hoped that income growth to match previous years will be restored once current projects are completed and relet.

We continue to monitor the performance against consistent long term targets set by Council for both income and capital growth. Over the last ten years these long term targets have been exceeded. However, the volatility and uncertainty of the investment markets makes such targets increasingly challenging to achieve. The outperformance of the last ten years has provided a cushion from the recent

downward pressure on returns, but this will be gradually eroded pending any cyclical upturn of fortunes in the future. The imperative is to continue with a proactive asset management strategy, appraising new opportunities that may present themselves while simultaneously creating other opportunities from within our own portfolio.

#### Ten year performance



#### Commercial Property Portfolio

The commercial property investments continue to dominate the Duchy portfolio due to the inherent income strength. This sector represents 43.2% of the total (2009: 36.7%), having a value before debt of £150.4m (2009: £118.5m). The utilisation of an unsecured loan of £25m within the portfolio is a departure from former policy and relates to the acquisition during the year of the Tower Bridge Business Park in London; as a result debt increased during the year from £6m to £31m. The purchase is a prime, multi let, industrial investment with the anchor tenants being Royal Mail and Metropolitan Police.

# Duchy of Lancaster

## Report of Council (continued)



*Tower Bridge Business Park, London*

The gross income from the commercial property is now £9.9m (2009: £8.9m), an increase of 11.3%. However, on a like for like basis, income has fallen by 3.7% on a unitised calculation.

The refurbishment and conversion of 2-4 Lancaster Place on the Savoy Estate has just been completed to



*2-4 Lancaster Place, London*

provide 67 units of student accommodation for the Courtauld Institute and the first students will occupy the premises this summer. The loss of revenue during refurbishment has had a detrimental affect upon income growth over the year but the new thirty year lease to the Institute with indexed reviews provides a level of income and stability that would not have been achievable from the former poor quality offices. Following the works, the revitalised building was awarded a "very good" environmental rating (BREEAM) which is pleasing for an existing building of this age and construction. The increased resident population of mature students in the area should serve to boost the income levels for the neighbouring retail premises.

This diversification of the income stream within the Savoy Estate has provided the Duchy with the confidence to look to the refurbishment of Wellington House on the corner of Strand and Lancaster Place. It is hoped to take advantage of a perceived lack of supply of well located, high quality office space in 2012/13. Design and viability work has started in association with Greycoat, a Duchy tenant in 9 Savoy Street. The scheme will provide around 35,000 square feet of office accommodation on seven floors available on a floor by floor basis or as a single letting. Such a working relationship accords with the Duchy policy of seeking to work with both our commercial and rural tenants where there are mutually advantageous opportunities to do so.

Early in 2010 the decision was made to sell Kea Park, Rotherham, the four industrial units having provided a good income return for a number of years. Similarly, the opportunity was taken to dispose of our investment in the indirect Osprey Limited Partnership thereby providing capital for further reinvestment within our direct portfolio.

The Root Hill Estate Yard conversion in Lancashire was completed during the year and was awarded the RICS North West commercial building of the year



*Root Hill Estate Yard, Lancashire*

award. Marketing of the available space continues at this scheme and at Crewe Hall Farm where 60% is now let despite a weak occupier market. The vacancy rate for the commercial portfolio as at the end of the year was 2.95% of gross income and we continue to monitor and communicate with all our tenants to ensure that, together, we can maintain a strong and practical working relationship.

Following the departure of the Royal Lancashire Agricultural Society from the Duke of Lancaster Park site in Lancashire, the Duchy undertook a reappraisal

# Duchy of Lancaster

## Report of Council (continued)

of the site having regard to the responses from the consultation with the local community. As a result, the Duchy has pursued an alternative strategy working with leisure operator Rural Retreats for the development of around 50 holiday lodges



*Proposed holiday lodges, Lancashire*

sympathetically located within the landscape of the site. This has been well received in initial meetings by the local planning authority and tourist board. The development will be a substantial improvement to the quality and diversity of leisure accommodation in the area. The site is a link between the coast and the Bowland Forest being central between the two. It is anticipated that construction will commence in 2011 and that the lodges will be available for occupation the following year.

Holiday accommodation is an area of activity that previously had been largely overlooked despite some of the Duchy surveys having considerable locational potential. To this end, two projects to the north of Scarborough on the Yorkshire Survey have been completed. Blue Mountain Barn was mentioned in my report last year and has achieved a very high occupancy rate throughout 2009 as well as being awarded a five star rating from the VisitEngland tourist board. At neighbouring Scalby Lodge Farm, a new cottage is about to see its first visitors and two further barn conversions are to be completed to the same high standard as Blue Mountain Barn. We have worked with English Country Cottages and our holiday units are highly prized with the proof of the quality of location and accommodation being the high level of bookings already achieved before any formal marketing has been undertaken. While this is an exciting diversification of revenue receipts, it is only lucrative in the right area and the cost of



*Scalby Lodge holiday cottage, Cloughton*

converting, furnishing and managing such accommodation has to be carefully assessed before any investment is made.

The extension has been completed at Moulton College, Higham Ferrers, a vocational college serving the construction industry, and provides expanded teaching facilities for both plumbing and bricklaying courses. Attendance at the college has continued to grow over the recession and the College has become an increasingly important educational centre within the area.

### **Agricultural Property Portfolio**

The Duchy remains committed to its agricultural portfolio and the performance has proved the benefits available from the diversification and consequential lack of correlation between this asset class and others within the portfolio. Following the independent valuation of the portfolio this year the capital value has increased from £84.2m last year to £96.8m in 2010 (+14.9%). This represents 27.8% of the portfolio. The programme of capital investment has continued, amounting to around £1.2m. However, such investment takes time before it is fully reflected in income returns and so for this year the gross income reduced from £2.5m to £2.4m (-2.8%).

The community consultation on the expansion and enhancement of Cloughton Village (Yorkshire) continues and an integral first stage of this is the receipt of planning consent for the new farmstead at Cloughton Fields. This will replace that at Town Farm, the site of which will form the centrepiece to any village development. Cloughton Fields will be the first purpose built farmstead constructed by the Duchy for many centuries and hopefully, with input from our tenant, will be a model farm for the future. The scheme is inextricably linked to the village plan

# Duchy of Lancaster

## Report of Council (continued)

and work is in hand to produce final designs for discussion with the planners prior to the submission of a formal planning application.



*Proposed farmstead, Cloughton Fields*

As mentioned previously, the Duchy continues its programme of investing in the fixed equipment on a number of our farms, in particular, West Blansby Farm, New Hambleton Farm, Ripleys Farm in Yorkshire, as well as Pipe Hayes Farm in Needwood.



*West Blansby Farm, North Yorkshire*

The Duchy has been encouraged by the progress over the proposals for infill residential development at Crewe Green village where, following consultation with the community, it is hoped that a planning application for around 80 houses will be made later this year. This will include the upgrading of the roads to calm traffic movement through the centre of the village. Similarly, housing has been promoted on a site at Higham Ferrers, Northamptonshire in substitution for the original mixed use development. Also, planning consent was obtained for improved access to the rear of the Higham Ferrers School which will open up the adjoining land for residential and commercial development. Finally, in consultation with Scarborough Borough Council, the Duchy has submitted representations for the allocation of 60 acres of land in Scalby, Yorkshire for residential development over the next five to ten years.

### **Residential Property Portfolio**

The residential property is mainly located on the rural Surveys and as such has seen a fairly static performance over the year as compared to the continued growth seen in central London markets. The value held steady at £67.1m (2009: £67.3m) which did not reflect the capital investment over the year of £1.2m to improve the quality of the accommodation. Income grew in nominal terms from £1.7m last year to £1.8m (+5.5%) while letting conditions over the year were variable.

There remains a continual requirement for capital to upgrade the quality of accommodation to satisfy the increasingly sophisticated demands of tenants. Inevitably, this results in a need to prioritise projects and hard decisions have to be made as to the viability and practicality of upgrading certain run down or redundant farm buildings for future use. Such expenditure is not always rewarded with a comparable uplift in income or consequential benefit to the estate as a whole.

Nevertheless, planning consent was obtained for the redundant farm buildings at Hanbury Grange, Needwood which will provide four new homes, while discussions continue over the proposal to demolish New Lodge and construct five new homes on the site and refurbish the outbuildings for a further three residential units.

The sale of one outlying cottage has been completed during the year to help finance other capital expenditure and, where appropriate, this policy will continue into the future.

### **Financial Portfolio**

The role of the financial portfolio was reviewed during the year and, while obviously offering some element of diversification, it also continues to provide the necessary liquidity to enable the Duchy, as a landed estate, to respond effectively to property market cycles. As at the year end the financial portfolio was valued at £51.6m (2009: £41.4m). The unitisation returns, reflecting transactions over the year, show a capital growth of 14.9% (2009: -26.2%) while income has decreased per unit by 15.6%. The weaker income performance was mainly due to the reduction in special dividends over the year as well as a reduction in income from the poorer performing funds within the Fixed Income portfolio but the yield held up well being just below 6.0%.



# Duchy of Lancaster

## Report of Council (continued)

The financial portfolio is now approximately 15% of the total net assets of the Duchy and it was decided to simplify the asset management of the portfolio by appointing a single discretionary manager rather than a number of individual managers for different asset classes. The transition will be completed in the current year.

### **Charitable and other activities**

The Duchy of Lancaster Benevolent Fund and the Jubilee Trust continued to make contributions of £390,000 and £180,000 respectively to their various beneficiaries, maintaining the level of previous years despite a slight downturn in income.

The Duke of Lancaster Housing Trust is progressing with the provision of its first rural housing units at Dunsop Bridge, Lancashire, a scheme for twelve houses designed by Preston based architects, Francis Roberts Architects. The quality of design and choice of local materials has been well received by the local Parish Council and discussions are in the pre-planning stage with Ribble Valley Borough Council. It is hoped to present the final design to the Parish Council in early summer and to be on site later in the year with completion in 2011.

### **Conclusion**

This has been a year of caution and consolidation but which has also provided some opportunities for strategic review and deliberation. The Duchy continues its policy to improve both the physical assets and the services we provide to our tenants. With a prudent approach to investment, it is my strong belief that we can weather the current economic uncertainties and prepare for better times ahead. We have experienced a rebound in capital values over the last year but the challenge is to maintain the current income levels. Inactivity is not an option. Sustainable income will only be derived from quality assets and so the established programme of improvement, balanced with judicious purchases and well timed sales, must continue.

The consistent results over the past few difficult years are testament to the commitment of the people who work with me at the Duchy Office. Without them the Duchy would lack both heart and flair. The future still holds many challenges but I know that those at the forefront of the work of the Duchy will meet them, and overcome them, to the long term benefit of our current Sovereign and Her successors.

Paul R Clarke CVO  
Chief Executive and Clerk of the Council

# Duchy of Lancaster

## Report of Council (continued)

### Constitution and Review of Governance

#### Background

The estates and assets of the Duchy of Lancaster are defined by Charter, granted by Henry IV upon taking the throne in 1399, as a separate inheritance from the Crown Estate and to be administered independently from those estates. The revenues are payable to the Sovereign.

The Duchy is a body incorporated by Charter in 1461 which is both an owner of property and the medium through which certain Palatine rights and responsibilities are exercised in Lancashire, Greater Manchester and Merseyside. Its origins lie in the grant of lands to Edmund, the first Earl of Lancaster, in 1265 and in the elevation of Lancaster to a County Palatine in 1351.

The Duchy manages the property and investments in its ownership and discharges the administrative duties associated with the Duchy's Palatinate rights and responsibilities in Lancashire, Greater Manchester and Merseyside. The net revenues from property and investments are paid to the Keeper of the Privy Purse for Her Majesty the Queen. The Duchy is not subject to Corporation Tax as it is not a separate legal entity for tax purposes; however, Her Majesty the Queen voluntarily pays Income Tax on revenue received from the Duchy.

#### 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 Duchy of Cornwall and Duchy of Lancaster 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.

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

#### Political and charitable donations

There were no political donations. There were no charitable donations other than the net income from bona vacantia and Palatinate account credited to the Duke of Lancaster Housing Trust, as described above.

#### Payment policy

It is the policy of the Duchy of Lancaster to pay its suppliers by the due date specific to each transaction. The effect of this policy is that the average period between invoice date and payment date was 26 days (2009: 27 days).

#### Administration

The Duchy of Lancaster is administered on behalf of the Sovereign by the Chancellor of the Duchy, and by the Clerk of the Council. The current Chancellor is the Rt Hon Lord Strathclyde (appointed 13 May 2010), succeeding the Baroness Royall of Blaisdon (retired 13 May 2010).

The Proper Officers are responsible for the preparation of accounts which are submitted to the Treasury and presented to both Houses of Parliament. The accounts are prepared in compliance with the Treasury Direction set out on pages 31-32.

The Chancellor has designated the members of the Duchy of Lancaster Council 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.

# Duchy of Lancaster

## Report of Council (continued)

### 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 then 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.

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

The members of Council who served during the year were:

- Lord Shuttleworth (Chairman of the Council)
- Mr Paul Clarke CVO (Chief Executive and Clerk of the Council)
- Sir Alan Reid KCVO (The Receiver General)
- Mr Robert Hildyard QC (The Attorney General)
- Ms Anne Richards
- Mr Hugh Seaborn
- Mr Mark Hudson
- Mr Christopher Adcock
- Mr Martin Beaumont

### 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 United Kingdom Generally Accepted Accounting Practice 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 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 periodically to tender the external audit function.

### Environmental 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 Committee, 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 Combined Code) issued by the Financial Reporting Council is widely acknowledged as representing best practice in governance. Although the Duchy of Lancaster is not obliged to comply with the requirements of the Combined 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 of Lancaster. A full compliance statement is produced internally and annually reviewed by Council. The only sub committee of Council is the Audit Committee.

# Duchy of Lancaster

## Report of Council (continued)

### Statement on the system of internal controls

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;
- regular reviews of periodic and annual financial reports which indicate financial performance against forecasts;
- setting targets to measure financial and other performance;
- physical and computer security procedures and contingency planning; and
- risk assessment reviews.

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

### 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.

Shuttleworth  
Paul R Clarke CVO  
London  
14 July 2010

# Duchy of Lancaster

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

We have audited the accounts of the Duchy of Lancaster for the year ended 31 March 2010 ("the accounts") which comprise the Consolidated Revenue Account, the Statement of Total Recognised Gains and Losses, the Group and Duchy Balance Sheets, the Consolidated Capital Account, the Consolidated Cash Flow Statement and the related notes set out on pages 13 to 28. These accounts have been prepared under the accounting policies set out therein.

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 opinion we have formed.

### Respective responsibilities of the Proper Officers and auditors

The Proper Officers' responsibilities for preparing the Report of Council and the accounts in accordance with applicable law and United Kingdom Accounting Standards are set out in the statement of the Responsibilities of the Proper Officers on page 10.

Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the accounts give a true and fair view, the accounts are properly prepared in accordance with the Accounts Direction given by H M Treasury dated 3 June 2010 and the information given in the Report of Council is consistent with the accounts. We also report to you if, in our opinion, the Duchy has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

We read other information contained with the Report and Accounts and consider whether it is consistent with the audited accounts. This other information comprises only the Financial Highlights, information on the Landed Estates, the Accounts of the Solicitor for the Affairs of the Duchy and the Accounts Direction. We consider the implications for our report if we become aware of any apparent

misstatements or material inconsistencies with the accounts. Our responsibilities do not extend to any other information beyond that referred to in this paragraph.

### Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgments made by the Proper Officers in the preparation of the accounts, and of whether the accounting policies are appropriate to the Duchy's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

### Unqualified opinion

In our opinion:

- the accounts give a true and fair view, in accordance with the United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the Duchy of Lancaster and the group as at 31 March 2010 and of the group's net surplus for the year then ended;
- the accounts have been properly prepared in accordance with the Accounts Direction given by the Treasury dated 3 June 2010; and the information given in the Report of Council is consistent with the accounts.

Nicholas Kelsey  
(Senior Statutory Auditor)

For and on behalf of  
Saffery Champness  
Chartered Accountants  
Statutory Auditors  
London  
14 July 2010

# Duchy of Lancaster

## Consolidated Revenue Account for the year ended 31 March 2010

	Note	2010 £'000	2009 £'000
Income from property	2	14,649	14,112
Expenditure on property, excluding development costs	3	(2,486)	(2,456)
<b>Net income from property</b>		<b>12,163</b>	11,656
Investment income	4	2,411	3,430
Loan interest		(405)	(277)
Administrative expenses		(1,314)	(871)
<b>Net operating income</b>		<b>12,855</b>	13,938
Development expenditure	1j	(390)	(837)
Development expenditure recovered from Capital		739	223
		349	(614)
Net proceeds of bona vacantia	7	1,288	1,352
Payable to the Duchy of Lancaster charitable funds		(1,288)	(1,352)
<b>Net surplus for the year</b>	5	<b>13,204</b>	13,324

## Statement of total recognised Revenue gains and losses for the year ended 31 March 2010

	Note	2010 £'000	2009 £'000
Net surplus for the year		13,204	13,324
Actuarial loss	17	(1,164)	(566)
<b>Total gains and losses recognised for the year</b>		<b>12,040</b>	12,758

The notes on pages 17 to 28 form part of these accounts.

# Duchy of Lancaster

## Balance sheets as at 31 March 2010

	Note	Group		Duchy	
		2010 £'000	2009 £'000	2010 £'000	2009 £'000
<b>Fixed assets</b>					
Property	10	330,556	286,610	324,556	280,610
Revenue fixed assets	11	42	75	42	75
Investments	12	53,280	42,616	53,270	42,606
		<b>383,878</b>	329,301	<b>377,868</b>	323,291
<b>Current assets less current liabilities</b>					
Debtors	13	1,361	1,846	1,391	1,867
Cash		5,998	8,358	5,851	8,151
		<b>7,359</b>	10,204	<b>7,242</b>	10,018
Creditors: due within one year	14	(14,447)	(8,975)	(8,320)	(8,779)
<b>Net current (liabilities)/assets</b>		<b>(7,088)</b>	1,229	<b>(1,078)</b>	1,239
<b>Total assets less current liabilities</b>					
		<b>376,790</b>	330,530	<b>376,790</b>	324,530
Creditors: due after one year	15	(25,000)	(6,000)	(25,000)	–
Provisions for liabilities and charges	16	(1,713)	(1,230)	(1,713)	(1,230)
<b>Net assets excluding pension liabilities</b>		<b>350,077</b>	323,300	<b>350,077</b>	323,300
Pension liability	17	(1,865)	(643)	(1,865)	(643)
<b>Net assets including pension liabilities</b>		<b>348,212</b>	322,657	<b>348,212</b>	322,657
Representing:					
Revenue Account	9	(1,315)	(93)	(1,315)	(93)
Capital Account	9	349,527	322,750	349,527	322,750
		<b>348,212</b>	322,657	<b>348,212</b>	322,657

Shuttleworth  
Paul R Clarke CVO

14 July 2010

*Detailed balance sheets for the Duchy Revenue and Capital accounts are shown in note 9.*

*The notes on pages 17 to 28 form part of these accounts*

# Duchy of Lancaster

## Consolidated Capital Account for the year ended 31 March 2010

	Note	2010 £'000	2009 £'000
Increase/(decrease) in valuation of property	10	19,943	(60,283)
Increase/(decrease) in valuation of investments	12	6,673	(15,207)
Net income from escheats		161	14
Repayments to Capital:			
Proportion of mineral royalties	3	36	69
Less recovery of Capital valuation fees		(36)	(30)
		-	39
<b>Total increase/(decrease) in the consolidated Capital Account for the year</b>		<b>26,777</b>	<b>(75,437)</b>

## Reconciliation of movements in the consolidated Revenue Account

	2010 £'000	2009 £'000
Balance at 1 April	(93)	416
Total gains and losses recognised for the year	12,040	12,758
Payable to the Privy Purse	(13,262)	(13,267)
<b>Balance at 31 March</b>	<b>(1,315)</b>	<b>(93)</b>

## Reconciliation of movements in the consolidated Capital Account

	2010 £'000	2009 £'000
Balance at 1 April	322,750	398,187
Increase/(decrease) in the consolidated Capital Account for the year	26,777	(75,437)
<b>Balance at 31 March</b>	<b>349,527</b>	<b>322,750</b>

There are no further recognised Capital gains or losses in either year

*The notes on pages 17 to 28 form part of these accounts*



# Duchy of Lancaster

## Consolidated cash flow statement for the year ended 31 March 2010

		2010 £'000	2009 £'000
<b>Net cash inflow from operating activities</b>	(a)	<b>14,262</b>	16,116
<b>Capital expenditure and financial investment</b>			
Purchase of properties		(28,573)	(18,114)
Purchase of investments		(12,366)	(3,727)
Purchase of fixed assets		(4)	(9)
Sale of properties		4,570	3,747
Sale of investments		8,318	18,924
<b>Net cash (outflow)/inflow from investing activities</b>		<b>(28,055)</b>	821
Payments to the Privy Purse		(13,567)	(12,806)
<b>Net cash (outflow)/inflow before financing</b>	(b)	<b>(27,360)</b>	4,131
<b>Financing</b>			
Increase in debt		25,000	–
<b>(Decrease)/increase in cash</b>		<b>(2,360)</b>	4,131
<b>Notes</b>			
<b>(a) Reconciliation of net surplus to net cash inflow from operating activities</b>			
Net surplus for the year		13,204	13,324
Depreciation		37	42
Current service costs less contributions to pension scheme		58	(57)
Repayments to Capital		–	39
Net income from escheats		161	14
Decrease/(increase) in valuation of other investments (Note 12)		57	(5)
Decrease in debtors		485	3,347
Increase/(decrease) in liabilities		260	(588)
<b>Net cash inflow from operating activities</b>		<b>14,262</b>	16,116
<b>(b) Analysis of changes in net funds</b>			
	1 April 2009 £'000	Cashflow £'000	31 March 2010 £'000
Cash	8,358	(2,360)	5,998
Bank Loans	(6,000)	(25,000)	(31,000)
<b>Net funds at end of year</b>	<b>2,358</b>	<b>(27,360)</b>	<b>(25,002)</b>

The notes on pages 17 to 28 form part of these accounts

# Duchy of Lancaster

## Notes to the accounts for the year ended 31 March 2010

### 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 Treasury Direction set out on pages 31-32.

#### (b) Consolidation

The consolidated accounts incorporate the accounts of the Duchy of Lancaster and its subsidiary undertakings all prepared up to 31 March 2010. The Duchy of Lancaster has elected under Section 408 of the Companies Act 2006 not to include its own profit and loss account in these accounts.

#### (c) Valuation of property

The policy of the Group 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 valued internally, with the methodology and assumptions adopted being reviewed by external valuers. The remaining property assets were 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 Group are valued on the basis of Market Value. 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 Consolidated 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.

#### (d) Valuation of investments

Quoted investments are shown at market value, unquoted investments are shown at latest independent valuation.

#### (e) Depreciation

- (i) In accordance with Statement of Standard Accounting Practice No. 19 no depreciation is provided on investment properties.
- (ii) Revenue fixed assets are depreciated over their estimated useful lives on a straight line basis, applying the following rates:

Motor vehicles	20% per annum
Plant and equipment, including computers	20-25% per annum

#### (f) Woodlands

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

# Duchy of Lancaster

## Notes to the accounts for the year ended 31 March 2010 (continued)

### 1. Accounting policies (continued)

#### (g) 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.

#### (h) Mineral rents and royalties

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

#### (i) Pension liabilities

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. The scheme actuarial gains and losses in the year are recognised immediately as other recognised gains and losses.

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.

#### (j) Development expenditure (Development site and other project expenditure)

Legal and professional costs incurred in bringing forward land for development and other potential Capital projects are charged to Revenue. These costs can be recovered from Capital only when there is a disposal for a Capital sum of an interest in the land concerned, or when the potential Capital projects are commenced.

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

#### (k) 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 and the sale of escheated property, 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, a separate registered charity.

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 2009. The accounts of the Solicitor for the Affairs of the Duchy of Lancaster for the year ended 30 September 2009 are, for the purposes of information, set out on page 30.

# Duchy of Lancaster

## Notes to the accounts for the year ended 31 March 2010 (continued)

### 2. Income from property

	2010 £'000	2009 £'000
Commercial	9,877	8,873
Agricultural	2,442	2,513
Residential	1,817	1,723
Mineral rents and royalties	159	211
Indirect property investment income	354	792
	<b>14,649</b>	14,112

### 3. Expenditure on property

	Repairs and other direct costs £'000	Repayments to Capital £'000	Total 2010 £'000	Total 2009 £'000
Commercial	333	–	333	227
Agricultural	415	–	415	348
Residential	338	–	338	314
Mineral rents and royalties	–	36	36	69
	1,086	36	1,122	958
Staff costs, administration and professional fees	1,364	–	1,364	1,498
	2,450	36	2,486	2,456

### 4. Investment income

	2010 £'000	2009 £'000
Interest on other fixed interest stocks and unit trusts	1,094	1,343
Equity dividends	1,367	1,840
Bank and other interest	21	271
Investment management fees	(71)	(24)
	<b>2,411</b>	3,430

### 5. Net surplus for the year

	2010 £'000	2009 £'000
Net surplus for the year is arrived at after charging:		
Staff costs (note 6(a))	1,097	1,215
Depreciation of Revenue fixed assets	37	42
Auditors' remuneration		
– audit services	27	28
– non-audit services	16	26

# Duchy of Lancaster

## Notes to the accounts for the year ended 31 March 2010 (continued)

### 6. 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:

	<b>2010</b>	2009
	<b>£'000</b>	£'000
Wages and salaries	<b>751</b>	897
Social security costs	<b>95</b>	105
Pension contributions	<b>251</b>	213
	<b>1,097</b>	1,215

- (b) The average number of employees (excluding the Chancellor and non-executive Council members) during the year was 14 (2009: 14).

- (c) The full details of the Chancellor and each Council member's remuneration package for the financial year are set out below:

	Basic salary and fees	Performance payments	Taxable benefits and allowances	<b>Total</b>	Total
	£'000	£'000	£'000	<b>2010</b>	2009
				<b>£'000</b>	£'000
Rt Hon The Baroness Royall of Blaisdon (Appointed as Chancellor on 10 June 2009)	–	–	–	–	–
Rt Hon Liam Byrne MP (Appointed as Chancellor on 3 October 2008. Retired as Chancellor on 10 June 2009)	–	–	–	–	–
Rt Hon Edward Miliband MP (Retired as Chancellor on 3 October 2008)	–	–	–	–	–
Lord Shuttleworth	62	–	–	<b>62</b>	53
Mr Paul Clarke CVO	166	8	1	<b>175</b>	207
Mr Christopher Adcock	113	6	1	<b>120</b>	138
Sir Alan Reid KCVO	–	–	–	–	–
Mr Robert Hildyard QC	12	–	–	<b>12</b>	10
Ms Anne Richards	16	–	–	<b>16</b>	15
Mr Hugh Seaborn	16	–	–	<b>16</b>	15
Mr Mark Hudson	16	–	–	<b>16</b>	15
Mr Martin Beaumont	16	–	–	<b>16</b>	15

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

	<b>2010</b>	2009
	<b>£'000</b>	£'000
Mr Paul Clarke CVO	<b>22</b>	21
Mr Christopher Adcock	<b>11</b>	11

# Duchy of Lancaster

## Notes to the accounts for the year ended 31 March 2010 (continued)

### 7. Net proceeds from bona vacantia

	2010 £'000	2009 £'000
Proceeds from bona vacantia	2,750	2,081
Provisions for late claims transferred to Late Claims Fund	(1,188)	(416)
	1,562	1,665
Costs of palatinate administration and historical obligations (note 8)	(274)	(313)
	1,288	1,352

### 8. Palatinate administration and historical obligations

	2010 £'000	2009 £'000
Administration of bona vacantia – costs met directly by the Duchy	27	27
Upkeep of castles and historic monuments	74	90
Rental and other income from castles	(2)	(2)
Savoy Chapel – stipends, running costs and repairs	50	93
Ceremonial, ancient stipends, charitable annuities and preservation of historic records	108	87
Administration of Duchy of Lancaster charitable funds	17	18
	274	313

Rental income from castles has been mainly receivable under short term agreements. Where agreements have been translated into long term agreements the income and expenditure are included in income from property.

# Duchy of Lancaster

## Notes to the accounts for the year ended 31 March 2010 (continued)

### 9. Analysis of Duchy balance sheet

	Revenue		Capital	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
<b>Fixed assets</b>				
Property	–	–	324,556	280,610
Revenue fixed assets	42	75	–	–
Investments	1,713	1,230	51,557	41,376
	<b>1,755</b>	<b>1,305</b>	<b>376,113</b>	<b>321,986</b>
<b>Current assets less current liabilities</b>				
Debtors	1,390	1,746	1	121
Balances due from Revenue/Capital	1,237	–	–	284
Cash	5,667	7,533	184	618
	<b>8,294</b>	<b>9,279</b>	<b>185</b>	<b>1,023</b>
Creditors	(7,786)	(8,520)	(534)	(259)
Balances due to Capital/Revenue	–	(284)	(1,237)	–
Net current assets	<b>508</b>	<b>475</b>	<b>(1,586)</b>	<b>764</b>
<b>Total assets less current liabilities</b>	<b>2,263</b>	<b>1,780</b>	<b>374,527</b>	<b>322,750</b>
Creditors: due after one year	–	–	(25,000)	–
Provisions for liabilities and charges	(1,713)	(1,230)	–	–
<b>Net assets excluding pension liabilities</b>	<b>550</b>	<b>550</b>	<b>349,527</b>	<b>322,750</b>
Pension liability	(1,865)	(643)	–	–
<b>Net (liabilities)/assets including pension liabilities</b>	<b>(1,315)</b>	<b>(93)</b>	<b>349,527</b>	<b>322,750</b>
Representing:				
Revenue Account excluding pension liability	550	550	–	–
Pension liability	(1,865)	(643)	–	–
Revenue Account	(1,315)	(93)	–	–
Capital Account	–	–	349,527	322,750
	<b>(1,315)</b>	<b>(93)</b>	<b>349,527</b>	<b>322,750</b>

# Duchy of Lancaster

## Notes to the accounts for the year ended 31 March 2010 (continued)

### 10. Property

Group:	Value at 1 April 2009 £'000	Purchases at cost £'000	Sales proceeds £'000	Change in market value £'000	Value at 31 March 2010 £'000
Agricultural property					
Farmland	78,389	1,210	(572)	8,892	87,919
Woodlands	3,875	–	–	296	4,171
Foreshores	1,972	–	–	2,698	4,670
	84,236	1,210	(572)	11,886	96,760
Residential property	67,280	1,243	(138)	(1,260)	67,125
Commercial property	118,462	26,119	(3,861)	9,688	150,408
Mineral rights	1,138	–	–	(86)	1,052
Property occupied by the Duchy	850	–	–	–	850
Land held for development	2,980	1	1	925	3,907
Indirect property investment	11,664	–	–	(1,210)	10,454
<b>Total investment property</b>	<b>286,610</b>	<b>28,573</b>	<b>(4,570)</b>	<b>19,943</b>	<b>330,556</b>

Duchy:	Value at 1 April 2009 £'000	Purchases at cost £'000	Sales proceeds £'000	Change in market value £'000	Value at 31 March 2010 £'000
Agricultural property					
Farmland	78,389	1,210	(572)	8,892	87,919
Woodlands	3,875	–	–	296	4,171
Foreshores	1,972	–	–	2,698	4,670
	84,236	1,210	(572)	11,886	96,760
Residential property	67,280	1,243	(138)	(1,260)	67,125
Commercial property	107,462	26,119	(3,861)	8,714	138,434
Mineral rights	1,138	–	–	(86)	1,052
Property occupied by the Duchy	850	–	–	–	850
Land held for development	2,980	1	1	925	3,907
Indirect property investment	16,664	–	–	(236)	16,428
<b>Total investment property</b>	<b>280,610</b>	<b>28,573</b>	<b>(4,570)</b>	<b>19,943</b>	<b>324,556</b>

All landed property is situated in England and Wales. Purchases at cost include expenses of purchases and expenditure on permanent improvements of £6,339,000 (2009: £3,561,000). Sales proceeds are net of expenses of sale and development costs charged from Revenue.

At 31 March 2010 the commercial property portfolio was valued internally and the rural property portfolio was valued externally by professionally qualified valuers. The breakdown of the rural valuation at 31 March 2010 by valuer is as follows:

Smiths Gore	23%
Savills	76%
Coke Turner	1%



# Duchy of Lancaster

## Notes to the accounts for the year ended 31 March 2010 (continued)

### 11. Revenue fixed assets

Group and Duchy:	Motor Vehicles £'000	Plant & Equipment £'000	Total £'000
Cost			
Balance at 1 April 2009	12	311	323
Additions during the year	–	4	4
Less: disposals during the year	–	(13)	(13)
<b>Balance at 31 March 2010</b>	<b>12</b>	<b>302</b>	<b>314</b>
Accumulated depreciation			
Balance at 1 April 2009	3	245	248
Charged during the year	2	35	37
Less: disposals during the year	–	(13)	(13)
<b>Balance at 31 March 2010</b>	<b>5</b>	<b>267</b>	<b>272</b>
Net Book Value			
<b>31 March 2010</b>	<b>7</b>	<b>35</b>	<b>42</b>
31 March 2009	9	66	75

### 12. Investments

Group:	Value at 1 April 2009 £'000	Additions at cost £'000	Sales proceeds £'000	Change in market value £'000	Value at 31 March 2010 £'000
Capital Investments					
Fixed interest unit trust	7,794	11,000	(252)	1,466	20,008
Equities	21,657	–	(3,000)	6,138	24,795
Private equity fund	7,337	778	(166)	(1,185)	6,764
Absolute Return Fund	4,598	–	(4,852)	254	–
	41,386	11,778	(8,270)	6,673	51,567
Other Investments					
Fixed interest unit trust	1,230	588	(48)	(57)	1,713
	1,230	588	(48)	(57)	1,713
<b>Total</b>	<b>42,616</b>	<b>12,366</b>	<b>(8,318)</b>	<b>6,616</b>	<b>53,280</b>

# Duchy of Lancaster

## Notes to the accounts for the year ended 31 March 2010 (continued)

### 12. Investments (continued)

Duchy:	Value at 1 April 2009 £'000	Additions at cost £'000	Sales proceeds £'000	Change in market value £'000	Value at 31 March 2010 £'000
Capital Investments					
Fixed interest unit trust	7,794	11,000	(252)	1,466	20,008
Equities	21,647	–	(3,000)	6,138	24,785
Private equity fund	7,337	778	(166)	(1,185)	6,764
Absolute Return Fund	4,598	–	(4,852)	254	–
	41,376	11,778	(8,270)	6,673	51,557
Other Investments					
Fixed interest unit trust	1,230	588	(48)	(57)	1,713
	1,230	588	(48)	(57)	1,713
Total	42,606	12,366	(8,318)	6,616	53,270

All investments except the private equity fund are listed on recognised stock exchanges, are authorised unit trusts, or are authorised open ended investment companies. Other Investments are investments held to cover late claims liabilities (note 16).

### 13. Debtors

	Group		Duchy	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Trade debtors (rents)	976	1,110	976	1,110
Other taxes	4	22	–	–
Other debtors	1	10	2	11
Prepayments and accrued income	380	704	403	736
Balance with group undertaking	–	–	10	10
	1,361	1,846	1,391	1,867

### 14. Creditors: due within one year

	Group		Duchy	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Trade creditors	242	487	239	484
Bank loan	6,000	–	–	–
Other taxes and social security	343	375	325	375
Other creditors	990	963	978	951
Accruals and deferred income	3,672	3,431	3,578	3,250
Due to the Privy Purse	3,062	3,367	3,062	3,367
Due to Duchy of Lancaster charitable funds	138	352	138	352
	14,447	8,975	8,320	8,779

The bank loan is repayable on 31 December 2010. Interest is payable at 1% above Base Rate.

# Duchy of Lancaster

## Notes to the accounts for the year ended 31 March 2010 (continued)

### 15. Creditors: due after one year

	Group		Duchy	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Bank loan	25,000	6,000	25,000	–
	<b>25,000</b>	<b>6,000</b>	<b>25,000</b>	<b>–</b>

The bank loan is repayable on 6 October 2014. Interest is payable at 2% above LIBOR.

### 16. Provisions for liabilities and charges

#### Group and Duchy:

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 12). The movements of the fund are as follows:

	2010 £'000	2009 £'000
Provisions for late claims received from the bona vacantia account met directly by the Duchy	1,188	416
Provisions for late claims received from the bona vacantia account	10	9
Increase in value of investments	(57)	5
Claims paid during the year	(658)	(840)
Surplus/(deficit) for the year	483	(410)
Late Claims Fund balance at 1 April	1,230	1,640
Late Claims Fund balance at 31 March	1,713	1,230

### 17. Pensions

The Duchy of Lancaster Staff Pension Scheme is a defined benefit scheme. It was closed to new entrants with effect from 6 February 2002.

From 1 January 2007 the Duchy made contributions to the scheme of a fixed annual amount of £28,150 payable monthly for salaried staff and in addition fixed payments in respect of past service of £121,000 per annum payable monthly, increasing at 2.8% per annum compound. From 1 January 2010 the Duchy amended its current service contributions to a fixed annual amount of £39,200 payable monthly for salaried staff and in addition fixed payments in respect of past service of £210,000 per annum payable monthly, increasing at 3.0% per annum compound.

The following additional information is reported under the provisions of Financial Reporting Standard No. 17.

The Scheme's last actuarial valuation was carried out with an effective date of 31 March 2009 by an independent actuary. The disclosures below have been based on these results, updated using approximate methods to 31 March 2010.

The figures for the previous two years are included for comparison.

As the Scheme is closed to new members, under the projected unit method the current service cost will increase as the remaining active members of the Scheme approach retirement.

# Duchy of Lancaster

## Notes to the accounts for the year ended 31 March 2010 (continued)

### 17. Pensions (continued)

The major assumptions used by the actuary were:

	2010	2009	2008
	% pa	% pa	% pa
Rate of increase in pensionable salaries	5.3	4.6	5.1
Rate of increase in pensions in payment	3.8	3.1	3.6
Discount rate	5.6	6.9	6.7
Inflation assumption	3.8	3.1	3.6

The assets in the Duchy of Lancaster Staff Pension Scheme and the expected rate of return were:

	Long term rate of return expected at 31 March 2010 %pa	Value at 31 March 2010 £'000	Long term rate of return expected at 31 March 2009 %pa	Value at 31 March 2009 £'000	Long term rate of return expected at 31 March 2008 %pa	Value at 31 March 2008 £'000
Equities	6.5	2,183	6.2	1,708	6.5	4,082
Bonds	5.0	4,822	4.7	3,588	5.0	1,045
Cash	0.5	326	0.5	1,237	5.25	2,416
Total market value of assets		7,331		6,533		7,543
Present value of Scheme liabilities		(9,196)		(7,176)		(7,677)
Deficit in the Scheme		(1,865)		(643)		(134)

Analysis of the amount charged to operating profit:

	2010 £'000	2009 £'000
Current service cost	32	33
Past service cost	–	–
Total operating charge	32	33

Analysis of the amount credited to other finance income:

	2010 £'000	2009 £'000
Expected return on assets	273	431
Interest on pension scheme liabilities	(478)	(495)
Net return	(205)	(64)

Amount recognised in Statement of Total Recognised Gains and Losses (STRGL)

	2010 £'000	2009 £'000
Actuarial loss recognised in STRGL	(1,164)	(566)

# Duchy of Lancaster

## Notes to the accounts for the year ended 31 March 2010 (continued)

### 17. Pensions (continued)

Movement in scheme liabilities during the year ended

	2010 £'000	2009 £'000
Liabilities at start of year	7,176	7,677
Movement in year:		
Current service cost	32	33
Interest cost	478	495
Contributions paid by scheme members	4	4
Benefits paid	(529)	(634)
Actuarial loss/(gain) (taken from STRGL)	2,035	(399)
Liabilities at end of year	9,196	7,176

Movement in scheme assets during the year ended

	2010 £'000	2009 £'000
Assets at start of year	6,533	7,543
Movement in year:		
Expected return on scheme assets	273	431
Contributions (total paid by employer and scheme members)	183	158
Benefits paid	(529)	(634)
Actuarial gain/(loss) (taken from STRGL)	871	(965)
Assets at end of year	7,331	6,533

History of scheme assets, obligations and experience adjustments

	2010	2009	2008	2007	2006
Present value of scheme liabilities	9,196	7,176	7,677	8,503	8,829
Fair value of scheme assets	7,331	6,533	7,543	8,320	7,990
Deficit in the scheme	(1,865)	(643)	(134)	(183)	(839)
Experience adjustments arising on scheme liabilities (£'000)	135	133	46	120	38
Experience item as a percentage of scheme liabilities	1%	2%	1%	1%	0%
Experience adjustments arising on scheme assets (£'000)	871	(965)	(955)	196	707
Experience item as a percentage of scheme assets	12%	(14%)	(13%)	2%	9%
Cumulative actuarial (loss)/gain shown in the STRGL	(1,272)	(108)	458	548	25

### 18. Group interests

Set out below are details of the Duchy's subsidiary undertakings as at 31 March 2010:

Undertaking	Principal Activity
Desford (Centenary Park) Limited	Property Investment
Desford Centenary Park Limited Partnership	Property Developer

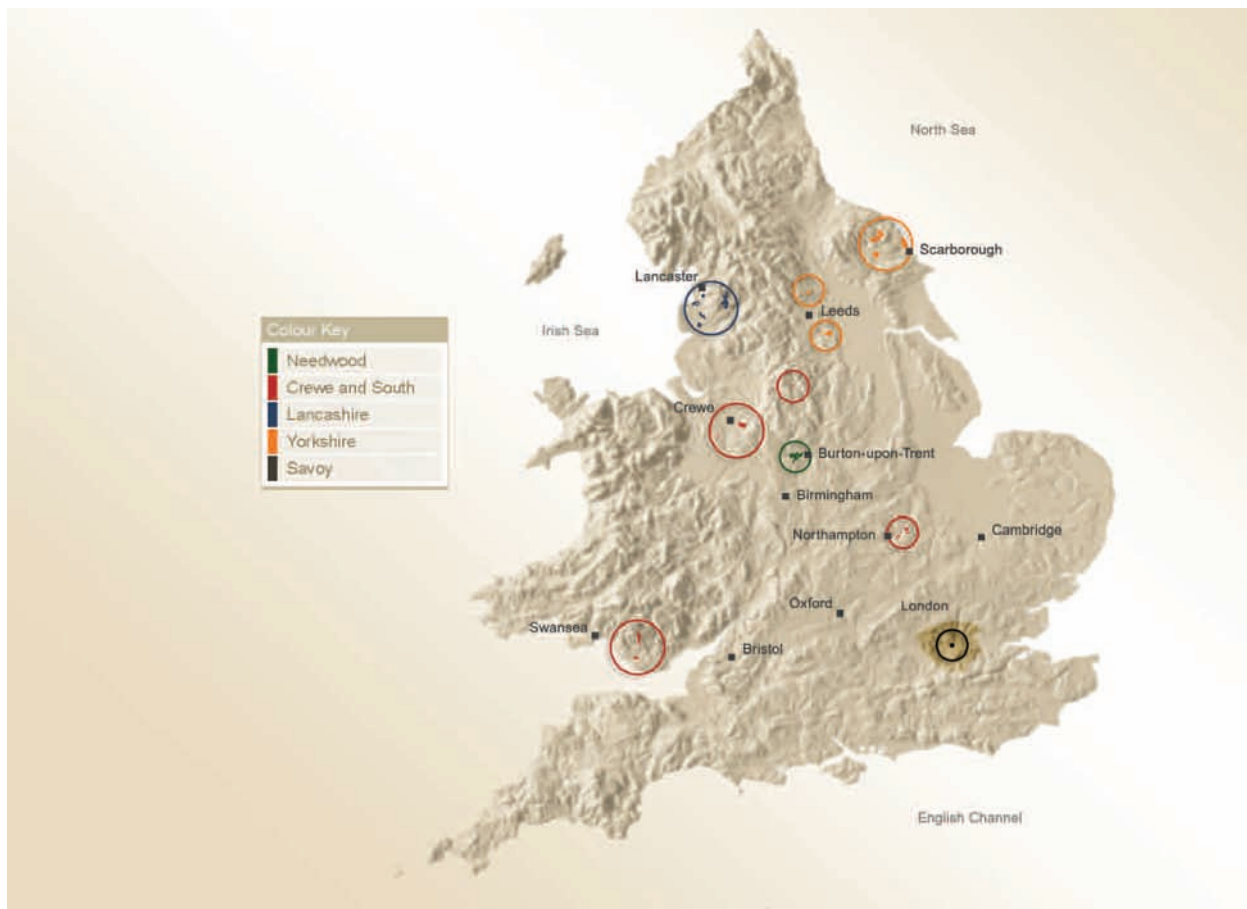
Both the above undertakings are wholly owned and incorporated in Great Britain.

# Duchy of Lancaster

## Duchy of Lancaster Surveys

The Duchy of Lancaster Surveys are rural estates totalling approximately 18,300 hectares located as follows:

	Hectares
<b>The Needwood Survey</b> Staffordshire	<b>2,956</b>
<b>The Crewe and South Survey</b> Cheshire Northamptonshire Derbyshire Lincolnshire Glamorgan Shropshire Leicestershire	<b>4,020</b>
<b>The Lancashire Survey</b> Lancashire	<b>4,623</b>
<b>The Yorkshire Survey</b> Yorkshire	<b>6,705</b>
	<b>18,304</b>



# Duchy of Lancaster

## Accounts of the Solicitor for the Affairs of the Duchy of Lancaster for the year ended 30 September 2009

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 266 intestate estates (2008: 318) and 969 dissolved companies (2008: 626) were formally reported.

### Income and expenditure account for the year ended 30 September

	2009 £	2008 £
Monies received from intestate estates and dissolved companies	5,097,258	3,781,683
Less : debts and liabilities of estates	(514,982)	(209,502)
payments to next of kin	(1,236,706)	(1,492,618)
ex-gratia payments to claimants	(150,318)	(80,563)
late claim payments	(657,905)	(840,891)
Net monies received	2,537,347	1,158,109
Administration costs	(475,133)	(426,404)
Interest received	57,974	227,834
Net receipts	2,120,188	959,539
Payments due to the Duchy of Lancaster	(2,063,911)	(1,214,507)
Net monies retained	56,277	(254,968)
Balance brought forward 1 October	3,031,824	3,286,792
Balance carried forward 30 September	3,088,101	3,031,824

### Balance sheet as at 30 September

	2009 £	2008 £
<b>Current assets</b>		
Cash and deposits	3,998,029	3,917,372
	3,998,029	3,917,372
<b>Current liabilities</b>		
The Duchy of Lancaster	(850,057)	(815,778)
Other creditors	(59,871)	(69,770)
	(909,928)	(885,548)
<b>Total assets less current liabilities</b>	3,088,101	3,031,824
Representing:		
Estates under administration	3,088,101	3,031,824

# Duchy of Lancaster

## Accounts direction given by H.M. Treasury

### Operating Review

1. The Duchy of Lancaster shall prepare accounts for the financial year ended 31 March 2010 and subsequent financial years comprising:
  - a Chairman's statement;
  - a Report of Council including an Operating Review and a Statement on Internal Control;
  - a consolidated revenue account;
  - a consolidated capital account, with a reconciliation of movements in the consolidated capital account;
  - a consolidated balance sheet; and
  - a consolidated 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 generally accepted accounting practice in the United Kingdom (UK GAAP).
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. The revenue account, capital account and balance sheet shall be prepared under the historical cost convention modified by the inclusion of:
  - property fixed assets at their market value or current cost;
  - investments at their market valueunder the alternative accounting rules specified in paragraph 31 of Schedule 4 of the CA.
5. This direction supersedes that of 4 June 2007. It shall be reproduced as an appendix to the accounts.

Paula Diggle  
Treasury Officer of Accounts

3 June 2010



# Duchy of Lancaster

## 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 Schedule 4 to the CA.
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. A formal valuation of the pension scheme was undertaken in 2009 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 FRS17 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 2012.
7. The Duchy is not required to provide the historical cost information described in paragraph 34(3) of Schedule 4 to the CA.
8. The Duchy is not required to comply with the requirement specified in paragraph 34 of Schedule 4 to the CA to maintain a revaluation reserve.

### Accounting standards

9. The Duchy need not show historical cost profits and losses as described in FRS 3.

### Other disclosure requirements

10. 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.
11. 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 the remuneration package 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.

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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 9 lives 55 Silk made from 55% recovered fibres including a minimum of 25% post consumer waste and 45% ECF virgin fibre.

