

Integrated Annual Report 2017

For the year ended 31st March 2017



DUCHY *of* CORNWALL

Sustainable stewardship

A photograph of a forest path covered in purple bluebells. The path is a narrow dirt trail that winds through a dense forest of tall, thin trees with vibrant green foliage. The ground is covered in a thick carpet of small, bell-shaped purple flowers. The lighting is soft and natural, suggesting a bright day with some shade from the trees.

Integrated Annual Report

For the year ended 31st March 2017

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



DUCHY *of* CORNWALL

Welcome

This Integrated Annual Report summarises activity on the Duchy of Cornwall Estate for the year ended 31st March 2017 and aims to describe how our 'integrated thinking' has developed since we first addressed this two years ago. Integrated thinking means considering how our decisions affect communities and natural environments in the course of meeting our commercial responsibilities.

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Integrated thinking

We have always aimed for integrated thinking at the Duchy estate. Our ambition is to show how this is applied systematically across the estate to optimise financial results, add value in our communities, and enhance the Duchy estate's living legacy of landscape and waters.

Integrated reporting

Our 2014/15 Annual Report was an initial step towards integrated reporting <IR>. It was informed by the International <IR> Framework developed by the International Integrated Reporting Council, and reflected discussions about our mission and strategy with our staff and key stakeholders. We summarised our business model, provided an overview of strategic objectives, outlined the key factors influencing performance and described our governance structure in more detail.

In our 2015/16 Annual Report, we built on this work by providing more information on strategic risk and by describing our capitals – the financial and non-financial resources we produce and use. This included the initial results from a corporate natural capital account that we had produced, which was one of the first large-scale applications of this method in the UK. We also considered how our strategic objectives align with the UN Sustainable Development Goals, launched in September 2015.

This year we complete our transition to a fully integrated report. We have developed our reporting on our stakeholders, their priorities, and how we create value for them. We have expanded the section on the external context in which we operate and we discuss progress on key performance indicators for our strategic objectives.

www.duchyofcornwall.org

Isles of Scilly



Sustainable stewardship

The Duchy is a private estate that provides an income to The Duke of Cornwall. It is managed in harmony with The Prince's ethos in order that it can be passed on with pride to the next generation.

Review of the year

A small selection of the many initiatives, events and visits that made up another busy year across the Duchy estate.



^ MAY 2016

Twenty-eight homes and businesses in rural Herefordshire benefit from full-fibre gigabit-capable broadband, as part of a community project we enabled.



< NOVEMBER 2016

Archaeologists discover a new monument on the site of the Neolithic/Bronze Age stone circles known as the Hurlers, on Bodmin Moor in Cornwall, part of the Duchy estate. The five-day excavation was undertaken by the Cornwall Archaeological Unit, which believes the stone was probably brought to the site by early humans and may have marked the head of a processional avenue.



< SEPTEMBER 2016

The Duke and Duchess of Cambridge make their first joint trip to the estate. Their visit includes Cornwall and Churchtown Farm on St. Martin's in the Isles of Scilly to see flower packing.

OCTOBER 2016 >

Her Majesty The Queen visits Poundbury with The Duke of Edinburgh, The Prince of Wales and The Duchess of Cornwall to mark the completion of Queen Mother Square. The square is the central hub of Poundbury and Her Majesty unveiled a statue of The Queen Mother by sculptor Philip Jackson.



< DECEMBER 2016

Cadets from Truro mark the 75th anniversary of the RAF Air Training Corps by planting trees in Duchy estate woodlands. Thirteen cadets aged between 12 and 17 years old from 730 Squadron planted 50 donated trees in Ladock Wood. They included silver birch, hornbeam, wild cherry, oak and rowan trees.

JANUARY 2017 >

The Prince's Countryside Fund awards £44,000 to the Dartmoor Hill Farm Project, which was set up to ensure a viable future for Dartmoor farmers. It offers advisory services on legislative changes, grant schemes and land management, as well as bringing the farming community together and keeping them updated on key issues.



^ FEBRUARY 2017

The Prince of Wales visits The Prince of Wales pub on Ham Hill to meet local business owners from North Street Farm Workshops. The workshops were set up by the Duchy in 1980 to support new start-ups and local businesses. Ham Hill in Somerset has been part of the Duchy of Cornwall estate since 1421.



^ MARCH 2017

The Prince's Trust supported the sixth annual Get Into Woodlands course for young people, hosted on the Duchy's Herefordshire estate. The six-week course provides practical skills and experience, including work placements, to boost the participants' confidence and improve their employability.

Strategic Report

Founded in 1337, the Duchy of Cornwall is a private estate of approximately 53,300 hectares in 23 counties of England and Wales.

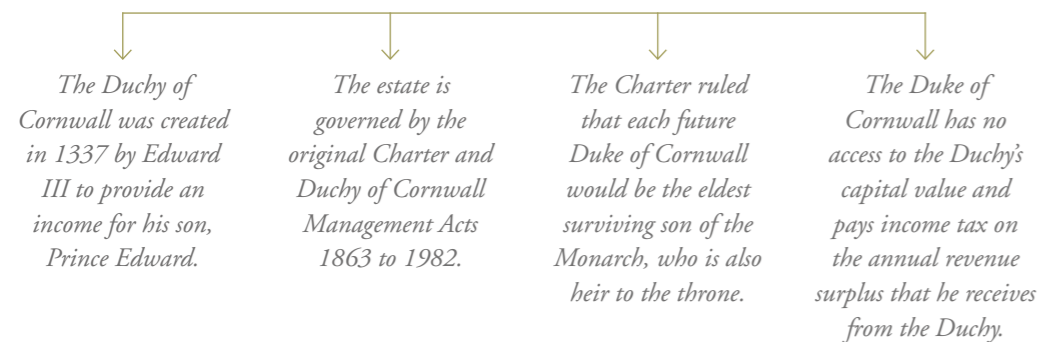
Through sustainable, commercial management of land and property, the Duchy estate provides an income to the present and future Dukes of Cornwall.

Our approach

The Prince of Wales is the 24th Duke of Cornwall and is actively involved in running the Duchy. The way in which the estate is managed reflects his belief that economic and social development will best succeed when it works in harmony with nature and is of meaningful value to the local community.

The aim is to improve the estate and pass it on in a stronger and better condition, which means continually pursuing a well-balanced commercial, social and environmental performance.

HISTORY AND CONSTITUTION



2016/17 highlights

DISTRIBUTABLE SURPLUS

up **1.6%**
to **£20.7m**

See page 23

ASSETS

Investment property valuation

up **10m**
to **£913m**

See page 11

COMMITMENT TO FARMERS

Average length of equipped farm business tenancy is

21 years

See key performance indicators on page 17 and Creating value for tenants on page 24

DIRECT CARBON EMISSIONS

53%

reduction on baseline

See Carbon report on page 84

RECREATION

£6m

The value of free visits made by the public to mountains, moor, heath and coast across the Duchy estate

See Creating value for the environment on page 30

CHERISHING THE ESTATE

£31.3m

Five-year capital investment plan

See key performance indicators on page 17

RENEWABLE ENERGY

3,459 MW

of renewable energy installed capacity across the estate

See key performance indicators on page 17

TREE PLANTING

54,000

trees planted this year

See Creating value for the environment on page 30

NEW HOMES AND JOBS

60 new homes and **362** new jobs at Poundbury in 2016;
1,428 homes and **2,338** jobs since development started

See key performance indicators on page 17 and Creating value for communities on page 26

TENANT SATISFACTION

90%

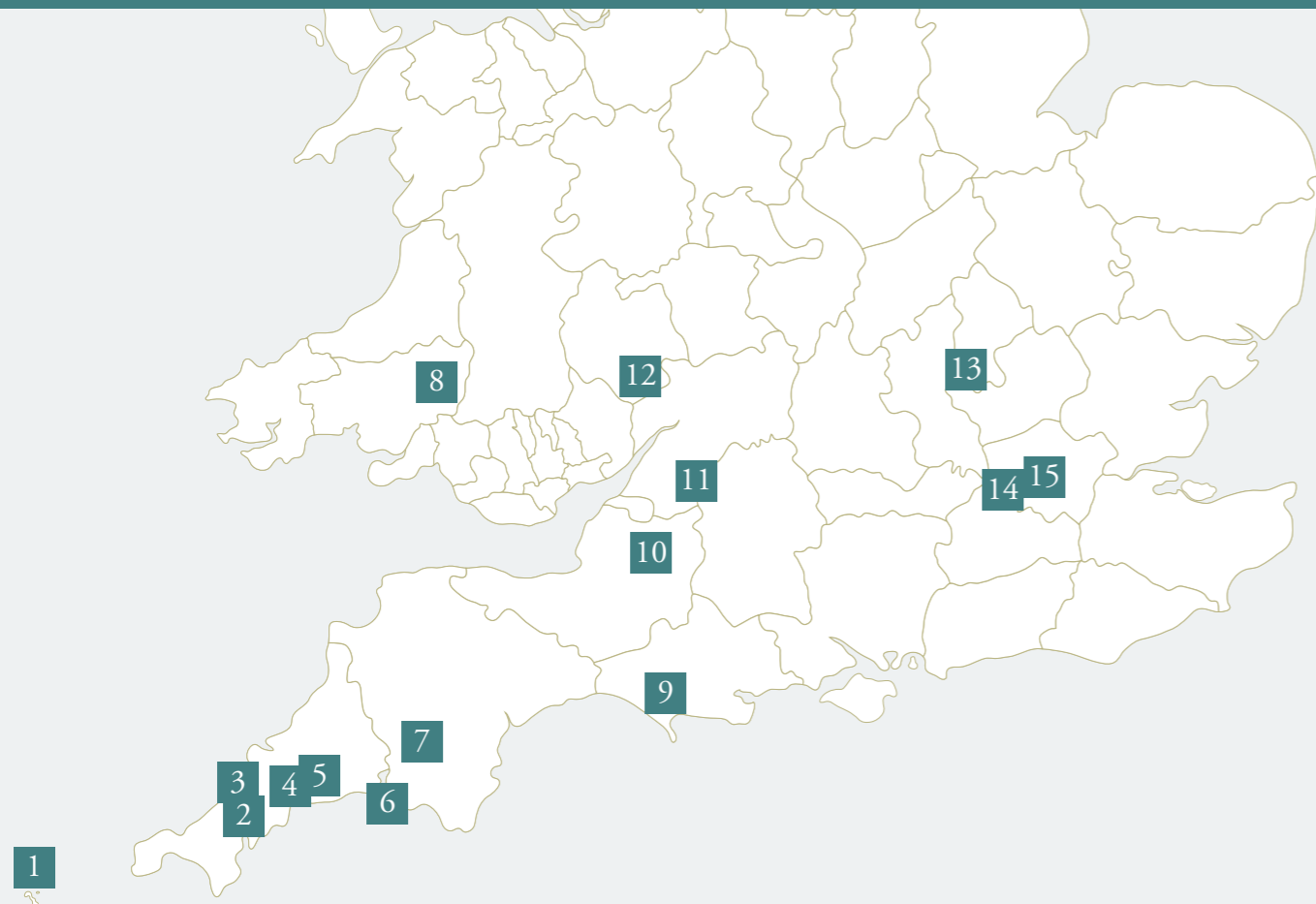
overall satisfaction amongst residential tenants

See Creating value for tenants on page 24

↑
Dartmoor

Tour of the Duchy estate

The Duchy of Cornwall estate extends across 23 counties in England and Wales. The map highlights a number of examples from the varied portfolio.



1 ISLES OF SCILLY
The Isles of Scilly have been part of the Duchy of Cornwall since the 14th century.



2 TRURO *Eastern District Centre*
A partnership project with Cornwall County Council and Waitrose on Duchy-owned land.



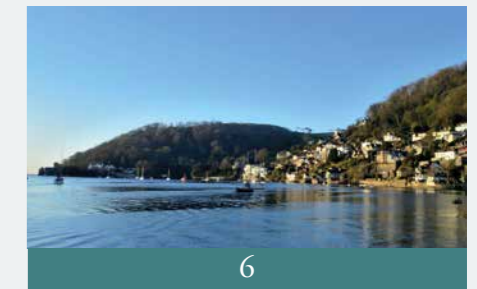
3 NEWQUAY *Development projects*
There are development projects at Tregunnel Hill and Nansledan.



4 DUCHY OF CORNWALL HOLIDAY COTTAGES
We have a small number of period properties available as holiday cottages.



5 DUCHY OF CORNWALL NURSERY *Lostwithiel*
The nursery opened its doors to the public in 1975 and includes a renowned café.



6 WATERS
Including the Dart, Salcombe and Kingsbridge, Avon, Tamar, Looe, Helford and Camel estuaries and coastal foreshore around Cornwall and the Isles of Scilly.



7 DARTMOOR AND PRINCETOWN
Most of Dartmoor's 27,300 hectares have been part of the Duchy estate since the 14th century.



8 LLWYNYWERMOD
The Welsh home of Their Royal Highnesses The Prince of Wales and The Duchess of Cornwall.



9 POUNDBURY
The urban extension to Dorchester
Poundbury is built on principles of architecture and urban planning as advocated by The Prince of Wales.



10 EASTERN DISTRICT ESTATES
The Eastern District includes land in Gloucestershire, Somerset, Wiltshire and Dorset.



11 HIGHGROVE HOUSE and HOME FARM
Highgrove is the family home of Their Royal Highnesses. The nearby 425-hectare Home Farm is entirely organic.



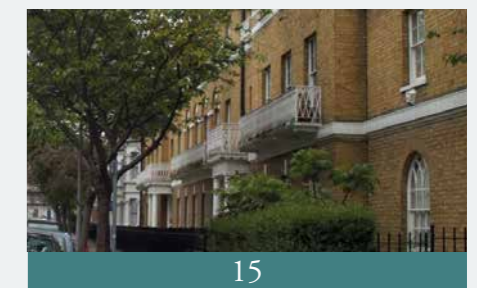
12 HEREFORD ESTATES
Incorporating the Guy's estate, purchased in 2000, and the Cradley estate.



13 COMMERCIAL PORTFOLIO
Standard investment properties, including two near Milton Keynes.



14 HEAD OFFICE
The Duchy's head office is at 10 Buckingham Gate, London. It includes the Duchy archive store.



15 LONDON *Mainly Kennington*
Estate assets include 16 flats, 23 houses and various commercial buildings, including The Oval cricket ground, as well as a number of long leases.

From the Secretary and Keeper of the Records



Taking our lead from His Royal Highness The Prince of Wales, sustainability has always been at the heart of how we operate.

This 2016/17 Integrated Annual Report represents the culmination of a three-year project to move to integrated reporting. This allows us to set out clearly what sustainable stewardship means to us. Building on work in our previous two reports, this year we consider how we create value and limit negative impacts for each of our key resources and relationships. We discuss the material, external factors that impact the Duchy estate and how we are responding. We set out key performance indicators for each of our strategic objectives, and we look at each of our stakeholder groups, their priorities, and how we create value for them.

Current macroeconomic and political trends will impact how we create value over the longer term. Four of these are reviewed later in this Report: the UK's decision to leave the European Union (EU); the shortage of and affordability of homes; climate change; and biodiversity loss and biosecurity. All these create uncertainty for the landlord and those who earn their living from, or live on, the estate.

A major milestone was reached this year at Poundbury when HM The Queen officially opened Queen Mother Square, the central hub of the Duchy's development in Dorset. Since

it was started in 1993, Poundbury has demonstrated that there is a genuine alternative to the way in which we build new communities in the UK. It is now home to around 3,000 people and 184 businesses with over 2,300 employees, and has had a major economic impact on the county. Simon Conibear, the Estate Director at Poundbury, has retired after 22 years working on the development. His successor, Ben Murphy, was appointed over two years ago in order to ensure a smooth handover.

Another significant development project, the Truro Eastern District Centre, was completed during the year. Let to Waitrose and Cornwall Council, the property has been retained by the Duchy within its commercial portfolio.

We commissioned our first residential tenant survey this year. We are pleased to have had such a high response rate, and to have been scored highly for overall tenant satisfaction levels and for how our staff deal with tenants. However, it is apparent that we need to respond more quickly to repair issues and to keep tenants better informed about progress on repair issues. Unsurprisingly, given the age of many of our properties and the cost of fuel, the survey revealed that many tenants find heating their homes both difficult and expensive. There is more detail available about the results of the tenant survey on page 25.

During the year we were pleased to re-let a significant farm in Cornwall to an existing Duchy farm tenant from a neighbouring estate, who successfully secured the tenancy against a strong competitive field.

The farm he leaves has been reorganised to provide a new opportunity for a former Devon County Council farm tenant, to expand his dairy herd and develop a family farming business.

We have concluded work to develop key performance indicators to assist the reporting and monitoring of our strategic objectives. Some of these indicators relate to our five-year strategy and are work in progress. On some we have fallen short, but plan to make up lost ground, and on others we are meeting our targets. See page 16 for further details.

Given the economic difficulties that the agricultural sector continues to face and the historically low interest rate environment, growing the revenue surplus above inflation has proved to be challenging, as this year's results show. Indeed, delivering growth in the revenue surplus over the next few years will be difficult to achieve.

The extensive programme of property renovations and improvements will continue. There is a considerable lead time to bring projects to fruition, through planning, design and obtaining the appropriate quality of contractors.

Further diversification within the portfolio will be sought where possible to underpin revenue growth, including restructurings within the commercial portfolio and two farm sales.

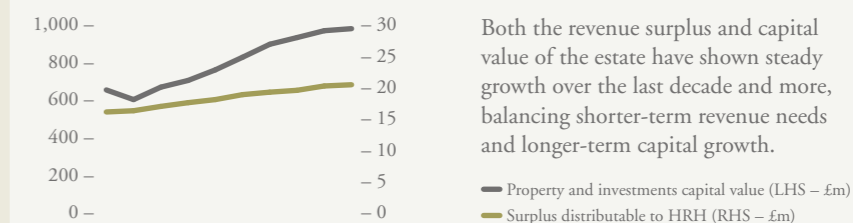
Pages 34–39 of this Report highlight the governance of the Duchy and the huge experience of The Prince's Council. This helps ensure the right balance between short- medium- and long-term interests, and means we draw on our rich history when determining future strategic direction.

I thank all the staff who have contributed so much to our success this year, in so many areas. I am confident that our traditions and ethos, set out in this Report, together with hard work and determination, allow us to maintain our strong position.

Alastair Martin
Secretary and Keeper of the Records

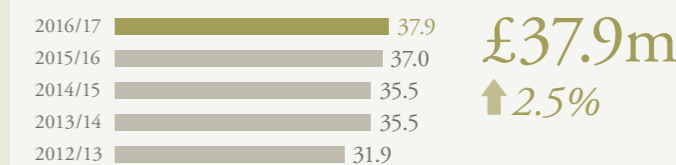
Performance trends

CONTINUED CAPITAL AND REVENUE GROWTH 2007/08 to 2016/17 (£m)



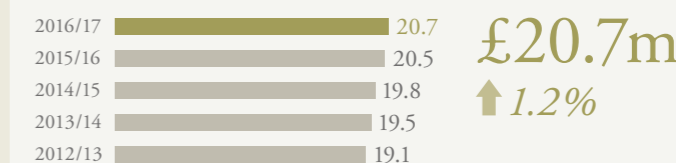
Both the revenue surplus and capital value of the estate have shown steady growth over the last decade and more, balancing shorter-term revenue needs and longer-term capital growth.

TOTAL INCOME to 2016/17 (£m)



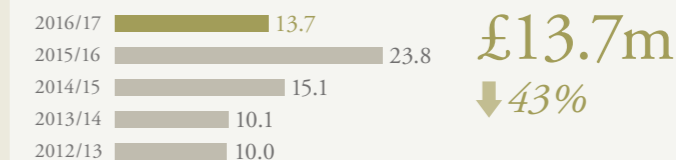
Total income includes rents from property lettings, interest and dividends from financial investments, sales at the Duchy Nursery and income from joint ventures.

SURPLUS DISTRIBUTABLE TO HRH (£m)



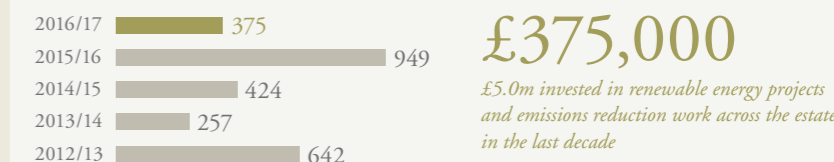
His Royal Highness The Prince of Wales, as Duke of Cornwall, is entitled to the annual net revenue surplus of the Duchy. He is not entitled to the proceeds or profits from the sale of the Duchy's capital assets.

CAPITAL INVESTMENT IN THE PROPERTY ESTATE (£m)



Capital investment consists of work undertaken on existing properties and expenditure on development sites. Development expenditure last year was exceptionally high as it included over £9m at Truro where, during 2016/17, the Waitrose store and Cornish food hall were completed and transferred to our commercial property portfolio. Development expenditure in the current year fell back to more normal levels.

INVESTMENT TO REDUCE CARBON EMISSIONS (£'000)



£5.0m invested in renewable energy projects and emissions reduction work across the estate in the last decade

Typical projects to reduce emissions include solar photovoltaic panels on farm buildings, renewable heating systems and improving the insulation of properties.

How we work

Through our approach and activities we aim to generate positive impacts and value over the long term, balancing environmental, social and economic needs.

Through the unique leadership and involvement of The Duke of Cornwall, we approach our activities with commercial realism, and social and environmental responsibility. A long-term perspective, combined with tenant and community engagement, is key.

OUR BUSINESS MODEL

Resources and relationships we rely on

The capitals on the Duchy estate are categorised under six key areas: financial, manufactured, natural, people, community and intellectual.

Opposite we describe how we enhance the value of these capitals, how we limit negative impacts, and how these capitals and our strategic objectives tie together.

You can read more about our strategic objectives on page 16.

Activities – what matters to our stakeholders

Supporting tenants and communities – enterprise, jobs and skills

Caring for nature – protecting and enhancing the landscape

Sustainable management – managing and balancing our portfolio

Place-making and development – new homes, business premises and communities

Enhancing the physical fabric – improving buildings and infrastructure

You can read more about our activities and their importance to our stakeholders on page 21.

Outputs

The sustainable and commercial management of land, property and other assets of the Duchy of Cornwall

Outcomes

Greater financial value by delivering a growing revenue surplus and increased capital values

Enhanced natural capital by supporting sustainable farming and rural communities

Stronger community relationships by stimulating local prosperity and rural infrastructure

You can read more about how we create value for our stakeholder groups on pages 22 to 32.

Our resources and relationships

Every day we draw upon and impact a range of resources and relationships, known in integrated reporting terms as ‘capitals’. We believe it is important to value the importance of all capital beyond pure financial value. Understanding how we rely and impact them will help us to manage, enhance and preserve them over the longer term.



Financial resources include the estate’s property assets, financial investments, loans and cash.

Manufactured assets mainly consist of buildings, some very old, some newly constructed.

As an historic landed estate of almost 53,300 hectares, **natural capital** is a major resource for the Duchy estate.

Enhancing value Active management of the financial investment portfolio by experts, with the aim of providing income with the potential for growth in the medium term.

A five-year £31.3m capital investment programme. Bringing new-built and purchased property into the portfolio and making disposals.

Sharing of best practice with tenants and between in-house land agency professionals. Creating area-based integrated resource management plans.

Limiting negative impacts Liquid financial assets are invested in funds which exclude fossil fuels, pornography, tobacco and certain armaments, predominantly in UK and US equities.

Maintaining, repairing and insuring buildings, conducting condition surveys and inspections, and keeping modern records of all buildings. Dedicated in-house professionals support by continuing professional development.

Focus on safeguarding and promoting important and vulnerable resources. Tenancy agreements that contain specific safeguarding clauses. Regular farm visits by estate staff.

Relevant strategic objective (see page 16) Provide income
Generate capital and rebalance capital assets

Cherish, protect and enhance
Generate capital and rebalance capital assets
Provide income

Work towards environmental progress and improvement
Reduce the environmental impact
Provide income



We continuously draw on our **people resources**: their skills and capabilities are an essential part of our success.

Similarly, there are many **community relationships** that support the way the estate is managed.

Intellectual resources include staff length of service and diversity of intellect, tenants, and HRH as Duke of Cornwall.

Enhancing value Inductions; annual appraisal; training; support for professional exams; institute membership; staff consultative committee; annual staff day; regular use of local, established contractors.

Staff are encouraged to engage both with the communities where the Duchy estate has property and with fellow organisations such as the Crown Estate and the National Trust.

Ethos, passion and unparalleled length of service of His Royal Highness as Duke of Cornwall. Many farming families have also been tenants for generations.

Limiting negative impacts Professional governance structure; qualified in-house HR manager; suite of HR policies; annual appraisal process; clear management lines.

Community consultation is undertaken and we have included a key performance indicator to monitor meaningful contact with major tenants.

Comprehensive modern records are maintained, along with an archive going back to the founding of the Duchy in 1337, in a newly refurbished depository.

Relevant strategic objective (see page 16) Engage with and proactively support
Cherish, protect and enhance
Work towards environmental progress and improvement

Engage with and proactively support

All strategic objectives

External context

There is a range of external factors that affect the Duchy's ability to create value over the longer term.



The issue

The UK's departure from the EU: 'Brexit'

The UK's decision to leave the EU has, as reported, caused some uncertainty. This makes planning and investment decisions harder as the circumstances around many decisions are bound to change.

Shortage of and affordability of homes

Parliament says "estimates put the need for additional housing in England at between 232,000 to 300,000 new units per year, a level two to three times current supply".¹

How this is impacting the Duchy estate

Uncertainty around the UK's medium-term trade position and on farming subsidies is impacting the farming sector and rural economy, and may impact rental levels and land values. Removing the influences of the Common Agricultural Policy could lead to an increased emphasis on output and reduce the focus on the natural environment. The funding of heritage and building projects could be at risk.

The area where the Duchy estate's land is predominantly situated "has more than its share of local authority districts with high house prices relative to earnings".²

We have always responded to local communities' needs for homes, making land available. We will continue to do so.

Our response

Until clarity comes, it is hard to define a response or understand the longer-term impact.

We continue our measured programme of rationalisation, consolidating our rural property assets, supporting farm diversification, and enhancing the physical quality of our property.

Our response to local community needs is being reviewed. We believe we have a robust consultation process and will work even harder to release sites to meet market demand and government policy.

Invasive alien species

As a responsible land owner, we recognise the ecological and financial risks that occur when plants are introduced to a natural environment where they are not normally found. A team of staff coordinates the identification, recording and mapping of these species, including giant hogweed, Himalayan balsam, Japanese knotweed and *Rhododendron ponticum*. Information is then passed on to tenants, staff and contractors so they can take action as needed.



The issue

Climate change

Weather plays a vital part in farming globally. It is believed that "within the next decades, climate change is likely to have severe effects on UK agriculture. Increased numbers of extreme events – such as floods – may be the most serious immediate problem. The effects may be partially mitigated by planting different crops and developing new varieties. Short-term uncertainty makes planning difficult."³

How this is impacting the Duchy estate

The most apparent impact on the Duchy estate to date has been via extreme weather events, with localised rainfall causing soil erosion and flooding. Variability in weather patterns impacts our tenants' profitability and could mean that their viability and natural resources are depleted.

Our response

We aim to build awareness amongst tenants and staff, influence what happens on our land, and design strategies to lessen impact. Our new project to develop Integrated Natural Resource Management Plans (described on page 31) will look at these issues in a detailed way for each farm and estate, and at a landscape level. Already, work has been undertaken with Cranfield University to manage water and soil problems on Duchy estate land, with workshops for tenants and industry advisers.

Biodiversity and biosecurity

The **planetary boundaries** concept presents a set of nine boundaries within which humanity can continue to thrive for generations to come. "Crossing these boundaries could generate abrupt or irreversible environmental changes."⁴ Four of these boundaries have already been crossed.

Relevant to the estate are boundaries associated with biodiversity loss, and an overload in nitrogen and phosphorus biochemical cycles. These affect the sustainability of terrestrial and marine ecosystems, impacting on nature's ability to support mankind, for example through pollination. There is also an increasing incidence of plant disease and invasive species in the UK.

¹ www.parliament.uk/business/publications/research/key-issues-parliament-2015/social-protection/housing-supply
² Smith, E. (2010). *Portrait of the South West*. Office for National Statistics

³ researchbriefings.files.parliament.uk/documents/SN03763/SN03763.pdf
⁴ stockholmresilience.org/research/planetary-boundaries.html

Strategic objectives and key performance indicators

We nurture strong relationships with tenants, communities and employees, working for positive, long-term results across the landscape and built environment to secure a proud legacy for future generations.

Our strategic objectives

Objectives relating to income and capital generation are relatively short term – we have a five-year strategy in place from 2015 to 2020. The other four objectives have medium-term targets, but are more concerned with long-term trajectory.



PROVIDE INCOME
to support the public, charitable and personal activities of The Duke of Cornwall and his immediate family



GENERATE CAPITAL AND REBALANCE CAPITAL ASSETS
whilst maintaining the quality and integrity of the estate



ENGAGE WITH AND PROACTIVELY SUPPORT
communities by listening and responding to local needs and priorities, and by promoting economic and social well-being



CHERISH, PROTECT AND ENHANCE
the physical fabric of land and property to maintain the estate for future generations



WORK TOWARDS ENVIRONMENTAL PROGRESS AND IMPROVEMENT
with farmers, partners and other interested parties



REDUCE THE ENVIRONMENTAL IMPACT
of the Duchy's in-house operations

	Targets		Performance
PROVIDE INCOME			
Annualised growth in distributable surplus	2.6% p.a. average annualised growth in revenue surplus 2015/20	×	Growth in the distributable revenue account surplus is behind the 2015/20 five-year plan target. For the first two years of the plan, annualised growth was 2.2%, and we expect little growth in 2017/18. The economic situation in the agricultural sector is more depressed than anticipated and income returns from financial investments are lower than envisaged as interest rates remain at historic lows.
GENERATE CAPITAL AND REBALANCE CAPITAL ASSETS			
To rebalance asset classes such that specific asset class yields combine to give the overall yield that delivers the income required	(See above)		
Maintain a cohesive, quality, core property portfolio	No net diminution in the core property portfolio	✓	During the year we sold 7.3 hectares from a core estate of 42,500 hectares. The bulk of this land was connected with two vacant buildings on the periphery of their estates, which were disposed of because of their repair liability and unsuitable fit with the rest of the portfolio.
Capital investment in the property estate	£31.3m to be invested over five years as per 2015/20 strategy	~	To date £11.5m has been invested, and we forecast that the five-year target will be met. However, planning and getting contractors on-site can take longer than anticipated and delays can occur.
ENGAGE WITH AND PROACTIVELY SUPPORT			
Engagement with tenants	Meaningful contact with every farm tenant at least annually, and increase yearly the overall number of estate farms HRH has visited	×	There was meaningful contact with 94% of farm tenants this year. Land Steward teams will try to improve on this during 2017/18.
		✓	HRH continued his programme of visits, including meeting another three farm tenant families for the first time.
Length of Farm Business Tenancies (FBTs) for equipped holdings	Let all equipped FBTs for periods of no less than 10 years	✓	On equipped holdings the average FBT length is 21 years. None is under the target of a 10-year minimum. All agreements starting after this key performance indicator came into force at the start of 2016 have been for 10 years or more, with an average of 15 years.
Jobs created at urban extension projects	At least one job created per house built	✓	At Poundbury 1,428 residential units were sold by the end of 2016 and 184 businesses were employing 2,338 full- and part-time employees. The Nansledan project envisages delivery of about 4,250 homes and a similar number of jobs over the next 35 years. To date, 88 homes have been completed and 130 people work on-site.
Community engagement on major development projects	Engagement process for all projects	✓	Local community consultation events were held on all three new potential development sites (Herefordshire, Somerset and Dorset). Two used the BIMBY (Beauty In My Back Yard) model developed by The Prince's Foundation for Building Community.
CHERISH, PROTECT AND ENHANCE			
Repairs spend	Repairs spend at least to keep pace with benchmark level of repairs spend on rural estates	✓	The rolling five-year total of repairs spend in our rural estate grew by 3.8% in 2016/17. The Savills Rural Estate Benchmark figure grew by 3.0%.
Capital investment in the property estate	£31.3m to be invested over five years as per 2015/20 strategy	~	To date, £11.5m has been invested, and we forecast that the five-year target will be met. However, planning and getting contractors on site can take longer than anticipated and delays can occur.
Safe buildings and places	This key performance indicator is work in progress.		
The proportion of land that is covered by a new Natural Resource Management Plan	This key performance indicator is work in progress, but pilot projects have been undertaken. See page 31 for details.		
WORK TOWARDS ENVIRONMENTAL PROGRESS AND IMPROVEMENT			
Renewable energy installed capacity and projects facilitated	Grow installed renewable energy capacity annually and facilitate other projects	✓	We have a renewable energy installed capacity of 3,459 MW across the estate: 49% solar, 42% biomass and 9% heat pumps. Last year saw a 26% increase in installed capacity; this year it was just 1%, as no new solar arrays were installed. We also facilitated a farm-based 250kW anaerobic digester.
The proportion of land that is covered by a new Natural Resource Management Plan	This key performance indicator is work in progress, but pilot projects have been undertaken. See page 31 for details.		
REDUCE THE ENVIRONMENTAL IMPACT			
Direct greenhouse gas (GHG) emissions	40% reduction against baseline by 2012	✓	Achieved
	60% reduction against baseline by 2020	~	A 53% reduction against baseline has been achieved this year. We continue to work on ways to reduce this further.

The Duchy estate's material risks

In attempting to meet our strategic objectives there will always be risks and uncertainties, even with a comprehensive approach to risk management. Those risks that could have a material impact on our work in the longer term, and which are most likely to affect value creation over time, are set out below. Further detail on our principal financial risks and uncertainties is available on pages 42–43 in the section on governance.

A Capital cash generation

Description	Mitigation	Effects
<p>A significant constraint on our ability to create financial value over time is the ability to generate the capital funds required to maintain and enhance the Duchy estate, alongside investing in income-earning assets that provide the required Revenue account surplus.</p> <p>There is an ongoing and increasing requirement for this capital investment, but the need to generate these funds is limited by our ability to increase borrowing (unsustainable in the long term), sell non-core property, or reduce capital expenditure.</p>	<p>Good budgetary control and forward planning is combined with strategic reviews of all asset holdings and some short-term borrowing.</p>	<p>Strategic objectives affected Provide income Generate capital and rebalance capital assets Cherish, protect and enhance the estate</p> <p>Resources and relationships affected Financial Manufactured</p>

B The state of farming

Description	Mitigation	Effects
<p>The difficult and uncertain trading situation faced by the agricultural sector brings financial, social and environmental risks. It significantly affects many of our traditional assets and tenants, with commodities and farming enterprises coming under financial pressure.</p>	<p>Our increasingly diversified asset portfolio mitigates the scale of this risk. However, for our agricultural tenants, life continues to be challenging on several fronts.</p>	<p>Strategic objectives affected Provide income Engage with and proactively support communities</p> <p>Resources and relationships affected Natural Financial Community</p>

C Safe buildings and places

Description	Mitigation	Effects
<p>Being the owner of a large portfolio of buildings and associated structures inherently brings significant risk. Site health and safety is vitally important where repair and improvement projects are undertaken. Buildings used by our staff and tenants must always be safe places to live and work.</p> <p>Similar risks are presented by our historic minerals assets (mines, quarries, adits), the marine estate and St Mary's harbour.</p>	<p>This is a key focus for the team of building surveyors and land agents that manages our properties. A comprehensive risk register and risk oversight process is in place, covering all assets and activities.</p> <p>We have external health and safety consultants and a comprehensive training programme for internal staff.</p>	<p>Strategic objectives affected Cherish, protect and enhance the estate</p> <p>Resources and relationships affected People Manufactured</p>

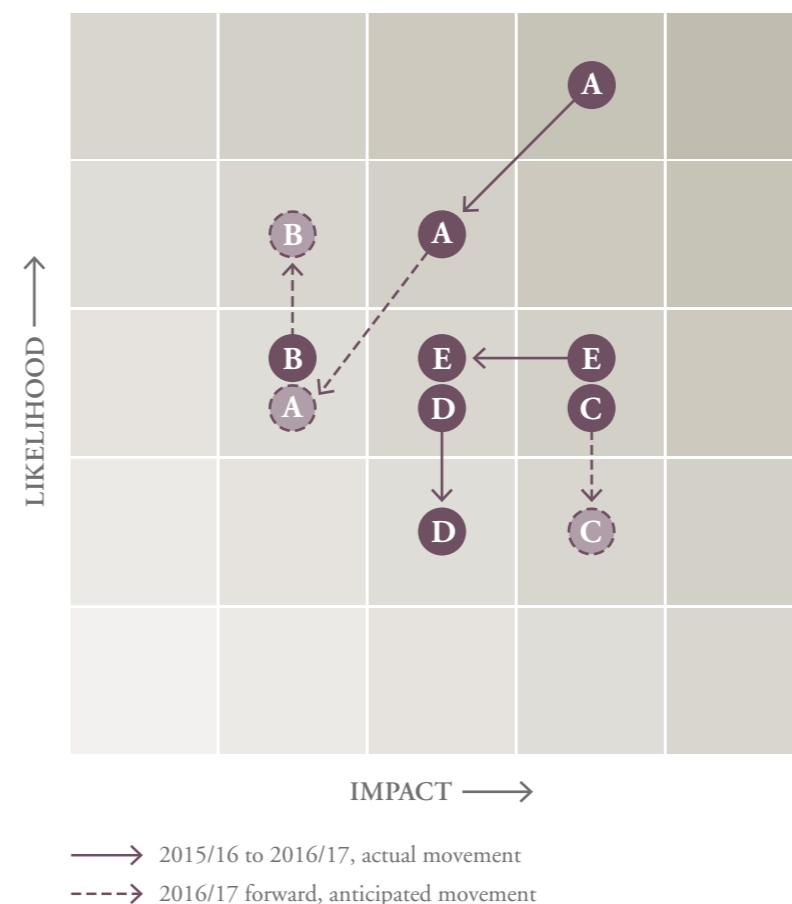
D Balancing access and protection

Description	Mitigation	Effects
<p>The public derives significant recreational and aesthetic value from the Duchy's estate, particularly on Dartmoor, the Isles of Scilly and the Cornish foreshore, in Duchy woodlands, and from public rights of way and permissive access.</p> <p>However, the balance between a short-term value increase and long-term damage is particularly fine.</p>	<p>Local land management, combined with continuous ownership and longer-term stewardship, increases our understanding and reduces risk.</p> <p>We have close working relationships with other stakeholders, and a formal access risk management programme is in place.</p>	<p>Strategic objectives affected Engage with and proactively support communities Cherish, protect and enhance the estate</p> <p>Resources and relationships affected Natural Community</p>

E Public understanding and perception

Description	Mitigation	Effects
<p>The Duchy estate is a unique organisation. Public understanding and perception of our work is important. The Duchy is a private estate that funds the public, charitable and private activities of The Prince of Wales and his family. The Duchy of Cornwall should be differentiated from Duchy Originals (now known as Waitrose Duchy Organic), which is an organic food brand set up by The Prince of Wales in 1990 and an entirely separate entity, not managed by The Duchy of Cornwall estate. The Duchy is also quite distinct from the County of Cornwall.</p>	<p>Communication continues through the Duchy website, press releases and this Integrated Annual Report.</p> <p>Staff are engaged in a broad programme of outreach with the communities where Duchy assets exist. Examples include working with the Council of the Isles of Scilly, Devon farming clubs and local Rotary clubs.</p>	<p>Strategic objectives affected Engage with and proactively support communities</p> <p>Resources and relationships affected People Community Intellectual</p>

The Duchy's material risks



A Capital cash generation during 2016/17 was better than budgeted. Anticipated sales of development land and farms during 2017/18 will further reduce this risk.

B State of farming: The difficult and uncertain trading environment for farmers continues, and is likely to be exacerbated by the uncertainty produced following the decision to leave the EU.

C Safe buildings and places: A revised health and safety oversight structure has been developed during 2016/17. This is designed to further improve the mitigations in place for these risks.

D Balancing access and protection: A specific working group was established in 2015/16 to address issues of access, and their work is now in place. The residual risk of damage to the environment remains.

E Public understanding and perception: The conclusion of some long running litigation has given us reassurance over the status of the Duchy of Cornwall. Our move to integrated reporting has given us the opportunity to explain our strategy better and illustrate the work we do.

Key stakeholders and their priorities

As a private estate that oversees agricultural, residential and business property, our work impacts a range of stakeholders with diverse priorities.



DUKE OF CORNWALL

KEY PRIORITIES

The Duchy of Cornwall estate generates revenue to fund the public, private and charitable activities of The Duke of Cornwall and his family. Part of our aim is to continually improve the estate in order to pass it on to future generations in a stronger condition.

RESPONSE

The estate is managed in harmony with The Prince's ethos to balance social, environmental and financial issues, as evidenced by the objectives on page 16 and the key performance indicators on page 17.



TENANTS

KEY PRIORITIES

Tenants want well-maintained properties, responsive management and long-term tenancies, all at appropriate market rents. New tenants want to create or grow businesses or build homes with a landlord who will work with them.

RESPONSE

Our specific key performance indicator targets track property repair spend and capital investment, and monitor the length of new farm tenancies (see page 17). We have re-let new farms and upgraded commercial and residential property.



COMMUNITIES

KEY PRIORITIES

Community stakeholders say their top priorities include rural enterprise and business, skills and community-based opportunities. They want affordable homes and to be involved with what happens in their neighbourhood.

RESPONSE

The estate nurtures existing communities and helps create new ones. For example, Poundbury now has 184 businesses employing 2,338 full- and part-time employees – an increase of 362 jobs since last year.



EMPLOYEES

KEY PRIORITIES

Staff want to enjoy a range of opportunities and secure employment. They want to take decisions in the best long-term interests of multiple factors, rather than focusing purely on short-term financial performance.

RESPONSE

Meeting our vision requires high quality, committed and innovative employees, who we then develop, support, motivate and reward. We recruit from a mix of backgrounds, skills and experiences, and aim to be an excellent workplace.



ENVIRONMENT

KEY PRIORITIES

The sustainable, commercial management of our land and property was the primary issue in our stakeholder materiality review. At a minimum, we must ensure that our natural capital is not being depleted.

RESPONSE

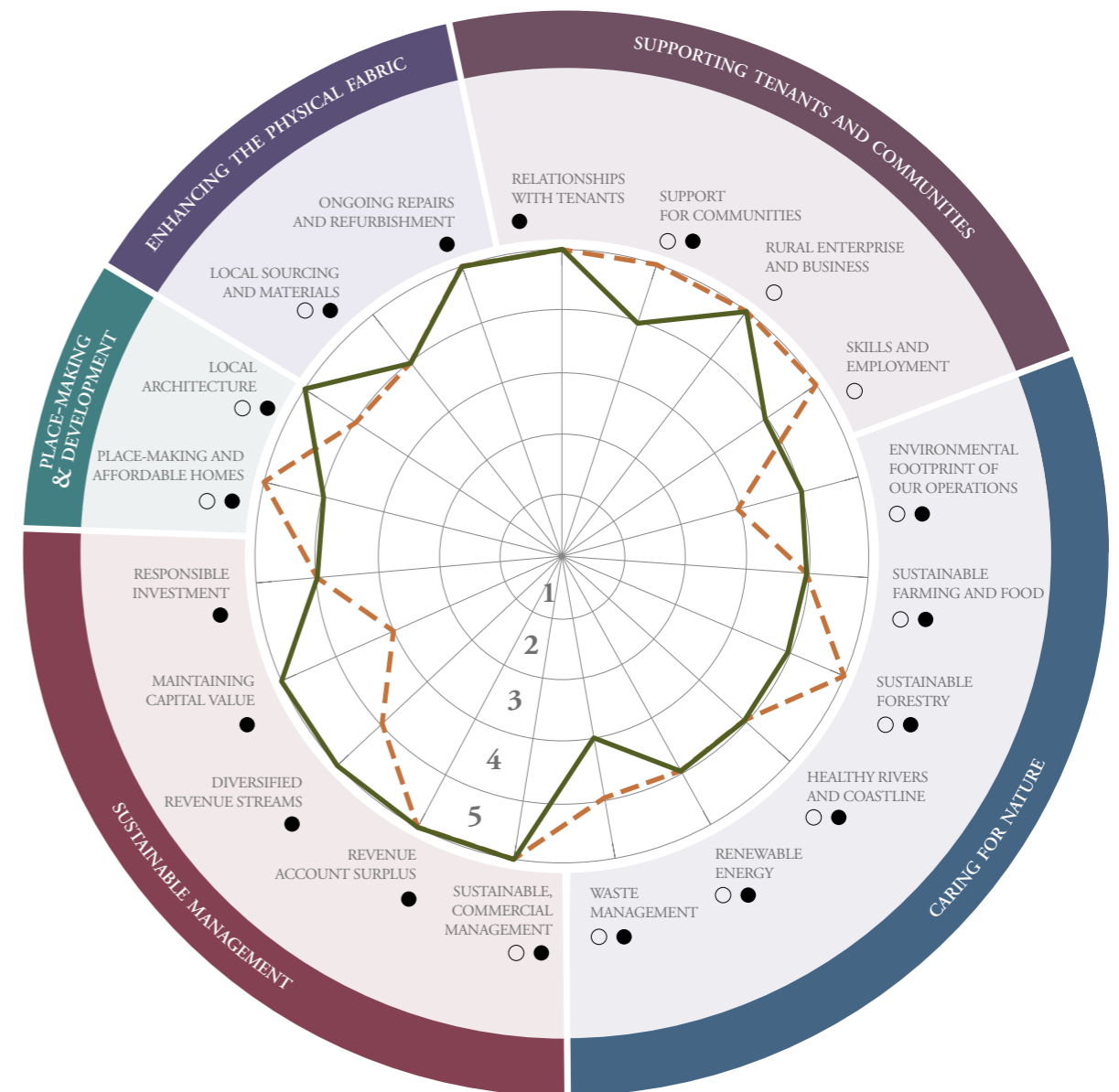
We aim to enhance our natural capital and support sustainable farming, providing food and viable livelihoods. Our natural resource management (described on page 31) will help us quantify this as a step to its preservation and enhancement.

Assessing what matters

Two years ago, we set out to deepen our understanding of what is material to Duchy estate stakeholders, through a formal engagement process. We consulted with a representative sample of tenants, senior estate officers and others to identify priorities and concerns, and assess their relative importance. This was followed by a series of Integrated Thinking workshops with the wider estate workforce. We also carried out a benchmarking exercise to review what other land and property management organisations considered to be material.

Key priorities and their importance

The diagram below shows the **key priorities** of our stakeholders and their relative **importance**. The outer ring shows the five material themes described on page 20, and their underlying elements. Each element could be either ○ within our sphere of *influence*, working with tenants and communities, or ● within our sphere of *control*, i.e. part of day-to-day management, or both. The centre of the diagram shows, for each element, — the importance attached by *internal* stakeholders (those who work for the Duchy estate), and — the importance attached by *external* stakeholders.



- Key**
- Importance attached by internal stakeholders
 - Importance attached by external stakeholders
 - Within Duchy's sphere of influence (working with tenants and communities)
 - Within Duchy's sphere of control (day-to-day management)

Creating value for... Present and future Dukes of Cornwall

The Duchy of Cornwall was established in 1337 to create an income for present and future Dukes of Cornwall.

The income generated by The Duchy of Cornwall estate funds the public, charitable and private activities of The Prince of Wales and his family. Under the 1337 charter, The Prince is not entitled to proceeds from the sale of capital assets, but only to the annual revenue surplus. His Royal Highness pays income tax at the prevailing rate and is actively involved in running the estate.



Walking Tretire Farm, Herefordshire, with the Pursey family and Bingo

20.7m

Distributable surplus in 2016/17

£5.0m

Invested in renewable energy projects and emissions reduction work across the estate in the last decade

£31.3m

Five-year capital investment plan



TRH The Duke and Duchess of Cambridge visiting the Isles of Scilly

The aim is to improve the estate and pass it to the next generation in a stronger and better condition.

Sustainable stewardship

The aim is to improve the estate and pass it on to the next generation in a stronger and better condition. This means taking a long-term approach whilst maintaining a portfolio that responds to today's needs.

Supporting communities

The Prince supports many initiatives to help farmers and local communities across the Duchy estate, and has always met with tenants and community groups to identify need and provide practical solutions that make a lasting difference. He has been a driving force behind several new starter farms, whilst developments such as Poundbury and Nansledan reflect The Prince's views on architecture and urban planning. Protecting the environment is a key priority, with ongoing investments in renewable energy and measures to reduce carbon emissions.

Future generations

The Duke and Duchess of Cambridge made their first official visit to the Duchy of Cornwall in September 2016. As well as seeing the Isles of Scilly – one of the oldest parts of the Duchy estate – Their Royal Highnesses visited Nansledan, the urban extension to Newquay conceived by The Prince of Wales.



Creating value for... Tenants

The Duchy estate includes over 600 residential lettings and more than 700 agricultural tenancies. As well as fulfilling professional obligations as landlord, the estate provides friendly and practical help to support tenants as their needs and priorities change.



^ Chris and Victoria Tucker and family, Arrallas Farm, Cornwall

Building strong personal relationships and providing support

Our Land Stewards play an active role in the local community and take the time to get to know tenants. By understanding the situation of each family or business, we are better placed to support their long-term requirements.

Supporting progression...

In 2012, Matt and Christiana Heard moved into a newly created starter farm in Devon. Since then, they have built a successful business keeping Ruby Red Devon suckler cows to produce beef that is sold direct to a local school, and heifers for local dairy farms. We assisted with the conversion of a traditional building on the farm for the tenants' upholstery business, which helps to provide additional income. In February 2017, Matt and Christiana began milking a herd of Jersey cows and the farm is in organic conversion, which we are helping to facilitate.

In the last five years, there have been eleven new open market farm re-lets, including four starter and three progression farms.



^ With the Bateman family at Netherstonhaies Farm, Devon

Creating opportunities

This year we helped third-generation estate tenants, Chris and Victoria Tucker, to grow their Cornish farm business by providing a new property with 250 more acres of land and a secure 20-year lease. As well as benefiting from suitable premises and a long-term tenancy, neighbouring land has been set aside in case the tenants wish to grow their business in the future. Meanwhile, we have been able to add some acreage to their original property and rent it out as a progression unit.

Updating premises

At Netherstonhaies Farm in Devon, the traditional farm building has been converted, in partnership with the tenants, to provide new office facilities for their land agency business. This has allowed the tenants to continue their calf rearing business whilst supporting their plans to diversify and generate new income. The Prince of Wales visited the tenants and had a tour of the farm in July 2016.

Residential Tenants Survey

In 2017, we commissioned an independent survey of residential tenants to better understand their needs and gauge how we are performing. Some 75% of the 440 tenants responded. The results show that:

- 90% of tenants are satisfied with their landlord services.
- Over 80% are fairly or very satisfied with the overall quality of their home.

- Nearly half (48%) of our tenants are aged 65 or over, and over a quarter have long-term health problems that limit their day-to-day activities either a little or a lot.
- Nearly half of our tenants have had a tenancy for 10 years or more.
- More than one-fifth of our tenants would like to downsize or move to a retirement home.
- Tenants are highly satisfied with how easy it is to contact us, and feel they receive helpful and friendly service (91%) and are treated fairly (96%).
- When asked if anything could be improved, three-fifths of the comments were linked to the repairs service or the condition of the property.
- Tenants think we could improve our response times for repairs and maintenance issues, and keep them better updated on progress.
- There are a number of older houses where tenants want our help to reduce energy bills by improving heating systems and windows.
- Four-fifths of tenants felt that we were good at keeping them informed about things that might affect them. Only 5% of tenants are dissatisfied in this area.

As a result of the survey, we will respond to specific issues raised, enhance our communications, and work to improve liaison with contractors. A follow-up survey is planned for three years' time and we will undertake a similar survey for rural workshop tenants early in 2018.

Creating value for... Communities

The Duchy estate maintains strong links with local communities through regional offices and Land Stewards. We actively seek local views, ensuring they have a say in what happens in their area.

The Duchy estate also supports projects that directly benefit local communities by investment and expertise, or places where local groups and organisations can meet.



^
*With the shoot,
Cradley, Herefordshire*

Listening to local voices

In line with The Prince's views on architecture and urban planning, we believe development should enhance quality of life, strengthen community bonds and give people pride in where they live. We regularly hold public consultations to ensure that local people are part of the planning and design process from the earliest possible stage, as we believe it results in a better quality of place.

In Shepton Mallet, Somerset, The Prince's Foundation for Building Community hosted two public workshops on a proposed new development of around 550 new homes, a school and business premises. Attendees included representatives of the Mid-Somerset Agricultural Society and Neighbourhood Plan Group, as well as local residents and businesses, ensuring all key stakeholders had a say. Their feedback has helped to shape the development's layout, architectural design and best use of green spaces.

A formal planning application will be submitted in the summer to Mendip District Council.



Engaging with local people and being responsive to their needs

Connecting rural communities

In Herefordshire, a project facilitated by the estate brought high-speed fibre broadband to 28 rural homes and businesses. Prior to this, residents had been unable to access online services, and local businesses couldn't interact with customers or take online orders due to a poor internet connection. No digital providers planned to address the problem, so Herefordshire Community Networks CIC was formed to carry out the work independently. The Group raised money to implement the service, and Duchy tenant farmer Mike Price volunteered to install cabling. Work was completed in May 2016 and a small celebration was held at the estate's office in June.

Supporting future farming

In 2008, The Prince proposed creating a cooperative so that Dartmoor farmers could sell beef and lamb directly to customers. With the estate's support, the Dartmoor Farmers' Association was formed and we continue to support its ongoing success. We also invest in the Moorskills programme, providing apprenticeships for young people to learn upland farming skills. Other supported local projects include the Dartmoor Woodfuel Cooperative and Dartmoor Hill Farm Project.

Sharing resources

When someone in Cornwall dies with no will or surviving relatives, their assets pass to The Duke of Cornwall. This is known as bona vacantia. After any discretionary payments have been made, The Duke of Cornwall chooses to donate all remaining monies to a Benevolent Fund he established in 1975 to benefit local communities in the South West of England, now mostly given to charities and good causes in Cornwall. The Duchy estate offices administer the Benevolent Fund: no charge is made for this service.

Creating value for... Employees

The Duchy estate has 153 members of staff who work in the head office in London and across six offices in the South West, as well as in the Duchy Nursery, woodlands, holiday cottages and on St Mary's Quay. Roles range from Land Stewards and building surveyors, to forestry, harbour management and finance.

With staff at the Duchy office, Newton St Loe, Somerset



Building stronger staff networks

To ensure we provide an inclusive and supportive work environment, a staff committee was set up in 2015. Representing all of our districts, the committee is made up of employees nominated by their colleagues and meets bi-annually in April and October. The committee creates an open forum where matters of interest or concern are raised and addressed, whilst ideas to improve staff welfare and increase efficiency across the estate's operations can also be developed.

Forging new links

Previous committee meetings resulted in the introduction of a staff social budget that is available to all offices. This creates opportunities for staff to spend time with colleagues from other offices who they might not normally see.

The committee also designed the Working With Charities policy, which gives staff up to two days paid leave each year to undertake voluntary work with one of the charities connected to The Prince of Wales.

Developing potential

Simran Sroya joined the Duchy in 2014 as Payments and Facilities Assistant at the head office in London. He played a key role with the renovations of the office building in 2015 and achieved the British Institute of Facilities Management Level 3.

His role crossed over into the Finance team where he discovered his true interest. With the full support of his line manager, the Duchy promoted Simran to Trainee Accountant in July 2015. To ensure Simran can develop his potential and his career, he is financially supported to complete the full qualification of the Association of Chartered Certified Accountants (ACCA). He has completed six units and has eight more to go.

Half of the Duchy finance team are currently supported in undertaking professional study.

Simran says: "I was encouraged and supported to take the first steps in building my career within Finance. It hasn't always been easy juggling work and exams, but with the support I receive I know I can build a good career."

Simon Conibear joined the Duchy of Cornwall staff in 1995. He retired in March 2017 after 22 years as Estate Director at Poundbury. During this time, Simon has seen Poundbury grow from 60 houses to a thriving community of more than 3,000 people and 184 businesses.



He says: "After my first experience of hearing the plans for Poundbury, I thought that it couldn't be achieved. I was working as a consultant and found it inconceivable. I thought the cost would exceed the sales prices. I was very wrong."

Since taking over, Simon has weathered many storms, attended thousands of planning meetings and broken many barriers in changing perceptions of this radical project.

"I needed a long induction process to understand the different way of building a place rather than a housing estate; streets rather than cul-de-sacs. That's what we are doing here – it's place-making, rather than housing estates."

He adds: "I want other developers to see that things can be done differently. We have yet to see another scheme that has so much character as Poundbury."

Creating value for... The environment

As our world becomes more volatile and uncertain, natural resources are diminishing. The Duchy estate is working to enhance natural capitals whilst supporting sustainable farming and rural communities.

The Duchy estate's natural capital includes:

23,875

hectares of farmland (with an estimated 920,000 tonnes of carbon stored in its soils)

3,300

hectares of woods (with 167,800 tonnes of carbon stock in above-ground tree biomass)

160

miles of coastal margins

24,000

hectares of mountains (approximately)

32,000

hectares of mineral rights (in addition to surface ownership)

Moors and heaths (including

14,150

hectares of peatland)

Small areas of

urban green space

These assets provide food and fuel, and climate regulation and water purification functions, whilst generating recreational opportunities and aesthetic enjoyment.

The big picture

In 2016, the Duchy estate commissioned an audit of natural capital assets in line with the corporate natural capital accounting (CNCA) framework developed by the independent Natural Capital Committee. It was aligned with the Natural Capital Protocol and was one of the first large-scale applications of the CNCA method in the UK.

Whilst the initial account helped estimate the physical and monetary value of the benefits our assets deliver, there were some limitations as it only partly covered certain benefits, and some estimates were based on broad assumptions and national datasets rather than local data. Not all flows were captured, particularly water regulating services, and cultural heritage and aesthetic value were not assessed.

Developing Integrated Natural Resource Management Plans

To address some of these limitations, we have started on a major review of the practical opportunities for improving our natural capitals management. Despite significant past successes, we want to promote a more considered approach to management to further improve our understanding of the resources, raise their profile and status, and deliver better, more consistent outcomes.

The project centres around the creation of area-based **Integrated Natural Resource Management Plans** that will identify opportunities for interventionist management to protect and enhance the value of the resources. This focused management tool requires that intervention results are quantified and can demonstrate that we are securing gains that contribute to the estate's strategic objectives.

Data trials

Once plans were finalised in March 2017, three diverse properties were identified for trials, using insight from the Farming and Wildlife Advisory Group.

The information collected will help identify priorities and resolve conflicts whilst improving understanding of our natural resource assets. Information we need includes topographic data, water flow, land and soil classification, national bio-diversity designations, habitat lists and designation data from Historic England and the Selected Heritage Inventory for England.

Next steps

Having gathered the data and completed Group surveys, our Land Steward teams will assemble plans so that farm-level strategies can be amalgamated into estate plans to inform landscape-scale initiatives. We will identify interventions that will safeguard the most important and vulnerable natural resources, whilst including other land management initiatives and national schemes such as Environmental Stewardship.

We know that our success in this proactive approach depends on our partnerships with tenants, which is why we aim to involve them in the process early on and encourage them to share ownership of the outcomes.

Identifying the objectives

We have identified management objectives for each of the relevant natural capitals and their services to guide our managers in compiling the Integrated Natural Resource Management Plans:

Soil	Conserve soils to avoid depletion and loss of structure, and enhance soil health.
Water	Achieve national standards for ground and surface water quality and make a positive contribution to catchment management.
Air	Improve our understanding of the measures available to reduce air pollutants derived from agriculture. Audit sources of greatest risk; identify and promote mitigations.
Bio-diversity	Safeguard and improve the condition of all sites designated as being of national significance. Guided by bio-diversity action plan targets, improve the condition of habitats and species.
Historic features	Safeguard the integrity of archaeological and historic features designated as being of national significance. Ensure that the integrity of all recorded archaeological and historic features is not degraded.
Landscape	Respect designated protected landscapes and ensure that management makes a positive contribution to the quality of all landscapes.
Access and enjoyment	Maintain suitable opportunities for the use and enjoyment of land.
Carbon	Promote land management practices that protect carbon sinks and promote the sequestration of carbon.
Minerals	Contribute to the supply of minerals as defined by local mineral planning policy whilst as far as possible conserving minerals and ensuring appropriate environmental and social protection.
Timber	Manage the production of timber and other forest products according to respected sustainable forest management standards.

The contents of the Strategic Report are signed on behalf of the Proper Officers by Alastair Martin, Secretary and Keeper of the Records, 7th June 2017.

OCTOBER 2015
Scoping of a corporate natural capital account is commissioned



JUNE 2016
Duchy Annual Report and Accounts discusses resources and relationships
Initial results from the corporate natural capital account are shown, including measures and estimates of some of the values of the services provided by nature



OCTOBER 2016
Objectives for the management of natural resources defined
Project for **Integrated Natural Resource Management Plans** approved



MARCH 2017
Three pilot projects under way, with input from the Farming and Wildlife Advisory Group



JUNE 2017
Duchy Integrated Annual Report 2017 includes strategic key performance indicator on the management of natural capital



MARCH 2019
Target for **Integrated Natural Resource Management Plans** to be completed for all farms



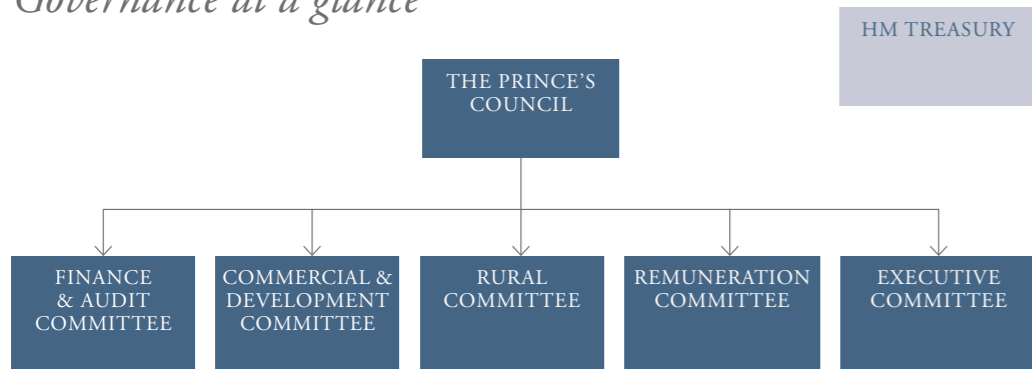
Governance

Clear direction and oversight

The Dukes of Cornwall have traditionally managed their own estates. The current Duke is actively involved in running the Duchy and is Chairman of The Prince's Council.

The Duchy is one of a kind. It is neither a corporation nor company, trust nor settlement. In the interest of transparency and good practice, these details are given as a further insight into how the estate is run, using a governance structure designed to provide clear direction and oversight.

Governance at a glance



The leadership provided by the Council is fundamental to the Duchy's performance. The Council delegates executive responsibility to its Committees, whilst maintaining oversight through Council members' participation in these Committees.

The Duchies of Lancaster and Cornwall (Accounts) Act 1838 gave HM Treasury a role to ensure that actions taken by any Duke when

managing the Duchy cannot compromise the long-term value of the estate. For this reason, HM Treasury must, for example, approve all property transactions with a value of £500,000 or more.

In addition, the Duchy's annual accounts are laid before the House of Commons and the House of Lords so that Parliament can be satisfied that HM Treasury is fulfilling its statutory responsibilities.

In relation to the International Integrated Reporting Council (IIRC) Framework for integrated reporting, we confirm that members of The Prince's Council have been involved in the development of this Integrated Annual Report and consider that it complies with the IIRC Framework. The Prince's Council acknowledges its overall responsibility for the accuracy and integrity of the Report's contents.



Operating framework

The Duchy estate was created by Charter in 1337 by Edward III for his son and heir, Prince Edward. The land, property and other assets of the Duchy, and the proceeds of any disposals of assets, are subject to the terms of the Charter and the Duchy of Cornwall Management Acts 1863 to 1982, the combined effect of which is to govern the use of the Duchy's assets for the benefit of the present and future Dukes of Cornwall.

The Prince of Wales, as The Duke of Cornwall, is entitled to the annual net revenue surplus of the Duchy. He is not entitled to the proceeds or profits from the sale of capital assets, which are retained in the Duchy to provide income for future beneficiaries.

The management of the estate is subject to the supervision of The Prince's Council and is subject to an annual independent external audit. In addition, HM Treasury has an important role in overseeing financial transactions, with particular emphasis on ensuring that capital is maintained for future beneficiaries. For example, property transactions of over £500,000 can only be carried out with HM Treasury approval.

^
*Llwynywermod,
Carmarthenshire*

The Prince's Council and Committees

Appointments to The Prince's Council are within the gift of The Duke of Cornwall. These appointments give the Duchy access to the professional expertise and experience of recognised leaders in agriculture, commercial property, estate management, investment management, law and finance.

Many members of The Prince's Council sit as non-executives on one or more Committees, providing a clear mechanism for dialogue, guidance and reporting.

	Appointed	Membership					
		COUNCIL	FINANCE & AUDIT	RURAL	COMMERCIAL & DEVELOPMENT	REMUNERATION	EXECUTIVE
THE PRINCE'S COUNCIL							
Chairman: His Royal Highness The Prince of Wales		✓					
The Lord Warden of the Stannaries – Sir Nicholas Bacon	June 2006	✓	✓	✓	✓	✓	
The Receiver General to His Royal Highness – The Hon James Leigh-Pemberton	December 1999	✓	✓			✓	
The Attorney-General to His Royal Highness – Jonathan Crow QC	December 2006	✓					
The Secretary and Keeper of the Records – Alastair Martin	January 2012	✓	✓	✓	✓	✓	✓
The Rt Hon The Lord Rothschild	June 2006	✓					
Mark Thomas	December 2006	✓		✓			
The Countess of Arran	June 2007	✓		✓			
James Williams	December 2009	✓	✓	✓		✓	
John Stephen	January 2012	✓			✓		
Clive Alderton, Principal Private Secretary to TRH The Prince of Wales and The Duchess of Cornwall	October 2015	✓	✓				
Ian Marchant	June 2012	✓	✓				
ADVISERS TO THE COUNCIL							
David Fursdon	April 2008			✓			
Paul Morrell	February 2012				✓		
Andrew Wright, Treasurer to TRH The Prince of Wales and The Duchess of Cornwall	September 2012		✓				
Sir Michael Hintze	September 2014		✓				
Henry Richards	November 2014				✓		
Kit Martin	February 2015				✓		
DUCHY STAFF							
Linda Bryant, Property Services Director							✓
Marie Cook, Human Resources Manager							✓
David Curtis, Land Steward, Eastern District				✓			✓
Tim Gray, Estate Surveyor					✓		✓
Chris Gregory, Land Steward, Western District and Isles of Scilly				✓			✓
Ben Murphy, Estate Director					✓		✓
Andrew Phillips, Rural Director of Finance				✓			✓
Nick Pollock, Head of Planning					✓		
Keith Willis, Finance Director		✓	✓	✓	✓	✓	✓

The Prince's Council

Sir Nicholas Bacon

The Lord Warden of the Stannaries, Sir Nicholas is a Norfolk landowner with commercial interests predominantly in London, and is President of the Royal Horticultural Society.

The Hon James Leigh-Pemberton

Receiver General, James was a Managing Director and Chief Executive Officer of Credit Suisse in the United Kingdom. In September 2013, he was appointed to head UK Financial Investments (UKFI).

Jonathan Crow QC

The Attorney-General to His Royal Highness, Jonathan, formerly First Treasury Counsel (Chancery), is a practising barrister, specialising in company and commercial litigation, and public law.

Alastair Martin

Secretary and Keeper of the Records, Fellow of the Royal Institution of Chartered Surveyors, and the trustee of several private estates.

The Rt Hon The Lord Rothschild

Chairman of The Rothschild Foundation, J Rothschild Capital Management and Five Arrows Limited.

Mark Thomas

A pedigree beef and sheep farmer from Launceston, Cornwall, Mark is a landowner and tenant, and past Chairman of the National Beef Association (South West) and Chairman of South Devon Herd Book Society.

The Countess of Arran

For the last 26 years, Lady Arran has been helping to manage a traditional rural estate and has wide charitable interests in the South West.

James Williams

James is based in Cornwall. His interests cover education, the arts, agriculture and charitable work.

John Stephen

A Chartered Surveyor, John was previously Chairman for England of Jones Lang LaSalle and is currently a non-executive director/adviser to several private property companies, family offices and charities.

Clive Alderton

Clive is Principal Private Secretary to TRH The Prince of Wales and The Duchess of Cornwall. He joined The Royal Household in 2015, having previously served as Her Majesty's Ambassador to the Kingdom of Morocco.

Ian Marchant

Former Chief Executive Officer of Scottish and Southern Energy, Ian has been Chairman of the international oil services company, Wood Group, since 2014 and of Maggie's Cancer Centre since 2015, and recently has become Honorary President of the Royal Zoological Society of Scotland.

Advisers to the Council

David Fursdon

David is a qualified rural surveyor and agricultural valuer. He is Chairman of Beeswax Dyson Farming Limited and a Trustee on the National Trust Board. A former Country Land and Business Association (CLA) President and Crown Estate and English Heritage Commissioner, David is the owner of a family estate management, property and tourism business. He is Lord Lieutenant of Devon.

Paul Morrell

A chartered quantity surveyor, Paul was Senior Partner and international Chairman at Davis Langdon (now part of AECOM). He subsequently became the Government's first Chief Construction Adviser and now practises as an independent consultant.

Andrew Wright

Andrew is Treasurer to TRH, The Prince of Wales and The Duchess of Cornwall.

Sir Michael Hintze

With a background in banking (Salomon Brothers, Goldman Sachs, Credit Suisse First Boston), Michael is the founder, Chief Executive and Senior Investment Officer of CQS, one of Europe's leading multi-strategy asset management firms and has been providing investment solutions to institutional investors for over 15 years. He is also a Senior Portfolio Manager. Michael has wide-ranging philanthropic interests and, to consolidate these, the Hintze Family Charitable Foundation was established in 2005.

Henry Richards

Henry was Executive Chairman of Lands Improvement Holdings Limited (LIH) before standing down when the business was sold in September 2015, but remains an adviser to the company. Prior to joining LIH, he was a Director of Savills and spent the first six years of his career with Jones Lang Wootton.

Kit Martin

Kit trained as an architect and is an Honorary Fellow of the Royal Institute of British Architects. He has spent a lifetime conserving historic buildings. He was Projects Consultant to The Prince's Regeneration Trust and a founding Trustee of Save Europe's Heritage. Awarded a CBE for services to conservation.

Governance in action

THE PRINCE'S COUNCIL

<i>Role and remit</i>
<ul style="list-style-type: none"> • Chaired by The Prince of Wales. • Provides advice to His Royal Highness with regard to the strategy of the Duchy. • With the exception of the membership of the Secretary and Keeper of the Records, the Council is a non-executive body.
<i>Principal resources and relationships overseen</i>
<p>The Prince's Council has always taken a holistic view of the resources and relationships the Duchy draws from and impacts upon. In its discussions and recommendations Council takes care to balance all resources and relationships.</p>
<i>Matters reviewed</i>
<p>Met in June and December 2016. Other than regular reports from the Council Committees, matters reviewed included: farming and new farm lettings; reciprocal visits with other estates; tourism on the Isles of Scilly; development projects; commercial property portfolio transactions; financial matters, including the annual budget and forecasts and a five-year plan; the minerals estate; forestry; and routine human resources, public relations and legal matters.</p>

FINANCE & AUDIT COMMITTEE

<i>Role and remit</i>
<ul style="list-style-type: none"> • Advises on the Duchy's financial strategy and liaises with the external auditor. • Chaired by The Hon James Leigh-Pemberton, the Receiver General.
<i>Principal resources and relationships overseen</i>
<p>Financial Manufactured</p>
<i>Matters reviewed</i>
<p>Met four times, in June, September, November and March. Specific topics covered during the year included: capital cash flow; restructuring of loans; the core commercial portfolio; the United Nations Principles of Responsible Investment (UN PRI) in relation to the financial investment portfolio; risk management; potential rural portfolio sales; and affordable housing.</p> <p>Each meeting receives detailed management accounts and a financial commentary, investment performance report and financial investment valuation. When reviewing financial performance, the Committee ensures that an appropriate balance is being struck between revenue and capital growth, that any variations between forecast and budget are understood and are appropriate, and that risks are being well managed.</p>

RURAL COMMITTEE

<i>Role and remit</i>
<ul style="list-style-type: none"> • Advises on the rural economy. • Chaired by Sir Nicholas Bacon, the Lord Warden. • Much of the value provided by the Rural Committee flows from the time and expert guidance given by members outside of formal meetings. Members carry out an extensive range of visits to the Duchy district offices, estates and farm tenants.
<i>Principal resources and relationships overseen</i>
<p>Natural Community Financial Manufactured</p>
<i>Matters reviewed</i>
<p>Met twice, in June and November. Each meeting reviews financial issues and the state of farming. At their meetings this year the Committee considered new farm lettings and investment in the estate; natural capital and the project to establish Integrated Natural Resource Management Plans; possible rural sales; rural broadband; the Harewood End regeneration project in Herefordshire; forestry; invasive alien species; and strategic key performance indicators for the estate. There were field visits to new tenants.</p>

COMMERCIAL & DEVELOPMENT COMMITTEE

<i>Role and remit</i>
<ul style="list-style-type: none"> • Advises on the commercial property portfolio and development sites. • Chaired by John Stephen.
<i>Principal resources and relationships overseen</i>
<p>Manufactured Community</p>
<i>Matters reviewed</i>
<p>Met four times, in May, September, November and March. As part of the Committee's work, it considered the valuations and financial reports it regularly receives in relation to the commercial property portfolio and development sites, and dealt with routine lease matters. The Committee monitored the main developments at Nansledan and Truro in Cornwall and other sites in Kennington, Hereford, Somerset and Kent. Specific matters also included the portfolio balance and restructurings, performance against industry benchmarks, and the future of Dartmoor Prison.</p>

EXECUTIVE COMMITTEE

<i>Role and remit</i>
<ul style="list-style-type: none"> • Implements strategy and manages all operational activities. • Chaired by Alastair Martin, the Secretary and Keeper of the Records.
<i>Principal resources and relationships overseen</i>
<p>People Intellectual Community Financial</p>
<i>Matters reviewed</i>
<p>Meets formally four times a year. Each meeting is structured around three fundamental questions: Are we making progress on our strategic objectives? Are our teams working effectively? Is the organisation running smoothly? Specific topics of focus included the management of risk within the marine and minerals portfolios; the management of natural capitals; tenant engagement; key performance indicators for our strategic objectives; capital investment levels; the management of health and safety; building awareness of the Duchy; and HR matters such as staff development and the annual appraisal process.</p> <p>Regular matters considered by the Executive Committee included legal, public relations and sustainability issues, as well as management accounts, budgets and forecasts.</p>

A NOTE ON ANCIENT TITLES

The Duchy is one of a kind, and some roles within the Duchy have ancient titles. The responsibilities attached to them are roughly equivalent to senior leadership roles in other organisations. The four Proper Officers, as they are known, are:

- **The Lord Warden of the Stannaries:** after The Duke of Cornwall, the Lord Warden is the most senior position on The Prince's Council, and Deputy Chairman.
- **The Receiver General to His Royal Highness** is non-executive chair of the Finance & Audit Committee, and has oversight of financial affairs.
- **The Attorney-General to His Royal Highness**, in whose name legal proceedings are taken and defended, is the principal legal officer providing legal advice and support.
- **The Secretary and Keeper of the Records** has executive responsibility for the management of the Duchy and is equivalent to the Chief Executive in other organisations.

Oversight of the Duchy's long-standing development at Poundbury together with the Nansledan development site is undertaken by the **Development Monitoring Group**. The Group considers all development aspects at Poundbury and Nansledan including design, planning, sustainability, financial, social and community issues.

The **Remuneration Committee**, chaired by Sir Nicholas Bacon, the Lord Warden, meets annually in March, and reviews and approves staff salaries and benefits.

Other disclosures

The Duke of Cornwall's Benevolent Fund

In the Benevolent Fund's last financial year, it made grants and commitments of c.£127,000 (2016: c.£101,000) to a variety of charities, primarily operating in Cornwall. In accordance with the wishes of The Prince of Wales, grants were made to educational and agricultural charities, together with the restoration of churches and environmental charities, as well as to a variety of other charitable causes.

Charitable donations

Charitable donations made by the Duchy of Cornwall estate amounted to £96,000 (2016: £120,000), made to causes in the following areas:

Agriculture	£16,000 (2016: £15,000)
Environment	£22,000 (2016: £29,000)
Community	£58,000 (2016: £76,000).

Significant individual donations included:

- £39,000 (2016: £42,000) to the Isles of Scilly Initiative, a body dedicated to the promotion of the destination of the Isles of Scilly; and
- £15,000 (2016: £15,000) to the Dartmoor Hill Farm Project.

Going concern

After making due enquiries and undertaking the normal forecasting procedures, including a five-year financial and strategic plan, the Proper Officers consider that the Duchy has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they have continued to adopt the going concern basis in preparing the financial statements.

Employment policies

The Duchy of Cornwall's employment policies and practices have been updated and developed to support the Duchy's business plans, and also to continue to strengthen its skilled workforce.

The Duchy is committed to open discussion and direct consultation with all employees as part of its Employee Relations Policy, with a number of channels of communication including an intranet, staff Duchy day, and a staff consultative committee.

All staff undertake an annual appraisal process to align their performance against objectives, linking back into the overall business plans of the Duchy. As part of this process, staff have the opportunity to agree to a Personal Development Plan prepared and discussed with their manager.

Proper Officers' report

Statement of the Proper Officers' responsibilities in the preparation of the Accounts

The Lord Warden of the Stannaries, the Receiver General, the Attorney-General, and the Secretary and Keeper of the Records (the "Proper Officers") are responsible for preparing the Governance Report and the Accounts, defined below, in accordance with applicable law and regulations.

The Accounts Direction given by HM Treasury dated 8th May 2017 (the "Accounts Direction") requires the Proper Officers to prepare Accounts for each financial year. Under the Accounts Direction the Proper Officers have prepared Group financial statements and Duchy of Cornwall financial statements (the "Accounts") in accordance with International Financial Reporting Standards (IFRSs), as adopted by the EU and as applied to the Accounts by the Accounts Direction.

Under the Accounts Direction, the Proper Officers must not approve the Accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Duchy of Cornwall, and of the surplus or deficit of the Group for that period. In preparing these Accounts, the Proper Officers:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the EU and as applied to the Group and the Duchy of Cornwall by the Accounts Direction have been followed, subject to any material departures disclosed and explained in the Accounts;
- prepare the Accounts on the going concern basis unless it is inappropriate to presume that the Group and the Duchy of Cornwall will continue in business; and
- prepare the Accounts in accordance with the Accounts Direction, which is reproduced in the Appendix to the Accounts.

The Proper Officers are responsible for keeping proper accounting records that are sufficient to show and explain the Duchy of Cornwall's transactions, disclose with reasonable accuracy at any time the financial position of the Duchy of Cornwall, and enable them to ensure that the Accounts comply with the Accounts Direction. They are also responsible for safeguarding the assets of the Duchy of Cornwall and hence for taking reasonable steps in the prevention and detection of fraud and other irregularities.

The Proper Officers are responsible for the maintenance and integrity of the Duchy of Cornwall's website. Legislation in the United Kingdom governing the preparation and dissemination of accounts may differ from legislation in other jurisdictions.

So far as the Proper Officers are aware, there is no relevant audit information of which the Duchy of Cornwall's auditor is unaware; and they 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 of Cornwall's auditor is aware of that information.

Principal financial risks and uncertainties

A comprehensive risk management process exists within the Duchy, covering all the assets and activities of the Duchy and its strategic, project, operational and financial risks.

The Prince's Council and its sub-committees take account of strategic risk as part of their deliberations. Project, operational and financial risk is controlled by members of the Executive Committee, and any issues arising are highlighted at their regular meetings or escalated at an earlier stage if appropriate.

The Risk Oversight Group supports the Council and Committees in these processes. Its members comprise the Finance Director, a Land Steward, a building surveyor and the Rural Director of Finance. The Risk Oversight Group reports to the Executive Committee.

Risk and internal control statement

The Duchy's operations expose it to a variety of financial risks, which include the effects of changes in credit risk, investment markets risk, currency risk, movements in interest rates, and liquidity issues. All these risks could affect the organisation's net assets, operating surplus, liquidity and/or structure. The Duchy's risk management process seeks to minimise potential adverse effects on financial performance. Looking at each of these risks in turn:

Property risk

The Duchy holds a diversified property portfolio, which is actively monitored by management so as to reduce the overall risk profile.

Credit risk

The Duchy is exposed to credit risk in relation to its tenants and financial institutions. Credit risk in respect of the Duchy's tenants is reviewed on a regular basis and appropriate action is taken where necessary. For new lettings the Duchy undertakes credit checks and holds tenant deposits where appropriate. For banks and financial institutions, the Duchy's appointed investment consultants assess the credit quality of the organisation, taking into account its financial position, past performance experience and other relevant factors.

In addition to the financial risks outlined here, a wide range of other factors is taken into account by management. This broader spectrum of risk, including macroeconomic and environmental challenges, is described in 'External context' on pages 14 and 15, and in 'The Duchy estate's material risks' on pages 18 and 19.

Investment markets risk

The Duchy is exposed to adverse movements within the financial markets and employs fund managers to manage its investment portfolios and the risks associated therein. The portfolios are reviewed on a regular basis to ensure that they reflect the overall objectives of the Duchy.

Foreign exchange risk

Foreign exchange risk arises on assets and liabilities denominated in a currency other than the Duchy's functional currency of Sterling. The most significant exposure, within the financial investment portfolio, is to the US Dollar. The spread of a +/- 10% exchange rate movement would equate to £4million. Such an impact would not be material in relation to the capital value of the Duchy, so no specific mitigation measures are considered necessary.

Interest rate risk

The Duchy's exposure to interest rate fluctuations is primarily related to bonds and is managed by external fund managers. Exposure to interest rate fluctuations on borrowings is fully hedged.

Liquidity risk

Without resorting to further borrowing, the Duchy has to generate all the capital cash it requires for major improvements to the fabric of the estate and for the restructuring of the portfolio. Such activities are therefore constrained by the Duchy's ability to raise capital cash through sales of property, which can be adversely affected during periods when there is limited economic activity in the property sectors within which the Duchy operates. The Duchy is well placed to manage this risk over the medium term through careful capital cash flow planning and borrowing facilities, which are readily available to us at competitive rates.

His Royal Highness has delegated to the Secretary and Keeper of the Records executive responsibility for the management of the Duchy. The Finance & Audit Committee regularly reviews the nature and extent of the Duchy's operations, and the financial risks associated with its activities. As a result of this review process, the Committee is satisfied that the Duchy maintains and operates a system of internal controls appropriate for the conduct of the Duchy's activities, although any control system can only manage, rather than eliminate, risk. It is not possible for such a system to provide absolute assurance against material misstatement or loss. The key internal financial controls are:

- **Financial management**
There is a comprehensive annual budgeting and forecasting system, which is approved in Council. Attention is paid to the composition and performance of the Capital account along with Revenue account returns, including benchmarking where appropriate. These reports are considered in detail by the senior management team before being submitted to Council.
- **District office procedures and controls**
District offices operate a system of procedures and controls, in accordance with directions issued by the Secretary and Keeper of the Records. Compliance with these procedures is overseen by the Executive Committee.
- **Capital investment appraisal**
Clearly defined guidelines for the assessment, authorisation and control of all capital receipts and expenditure are in place.
- **Risk register**
A comprehensive risk register is maintained and used as the basis for regular reviews by the Risk Oversight Group, Executive Committee and Finance & Audit Committee.

Accounts

Independent auditor's report to The Duke of Cornwall

Report on the Accounts

My opinion

In my opinion, the Duchy of Cornwall's Group and Duchy of Cornwall financial statements (the "Accounts"):

- give a true and fair view of the state of the Group's and of the Duchy of Cornwall's affairs as at 31st March 2017, and of the Group's revenue surplus, the Group's capital surplus and the Group's and the Duchy of Cornwall's cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the EU and as applied to the Duchy of Cornwall by the Accounts Direction given by HM Treasury dated 8th May 2017; and
- have been prepared in accordance with the Accounts Direction given by HM Treasury dated 8th May 2017.

What I have audited

The Accounts, included within the Annual Report and Accounts, comprise:

- the Group and Duchy of Cornwall balance sheets as at 31st March 2017;
- the Group Revenue account and the Capital account statements of comprehensive income for the year then ended;
- the Group and Duchy of Cornwall statements of cash flows for the year then ended;
- the Group and Duchy of Cornwall statements of changes in capital and reserves for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the Accounts is applicable law and IFRSs as adopted by the EU and as applied to the Group and the Duchy of Cornwall by the Accounts Direction given by HM Treasury dated 8th May 2017.

In applying the financial reporting framework, the Proper Officers have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on matters required by the Duchy of Cornwall Management Act 1982

In my opinion:

- proper accounting records have been kept by the Proper Officers of the Duchy of Cornwall;
- the Proper Officers of the Duchy of Cornwall have maintained a satisfactory system of control over transactions affecting the Duchy of Cornwall Property, as defined in the Duchy of Cornwall Management Act 1982; and
- the Accounts are in agreement with the accounting records of the Duchy of Cornwall.

Opinion on other matters prescribed by the terms of my engagement

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

- the information given in the Strategic Report and Proper Officers' Report for the financial year for which the Accounts are prepared is consistent with the Accounts; and
- the Strategic Report and the Proper Officers' Report have been prepared in accordance with the Accounts Direction given by HM Treasury dated 8th May 2017.

Other matters on which I am required to report by exception

Under the terms of my engagement I am required to report to you if, in my opinion:

- I have not received all the information and explanations I require for my audit; or
- certain disclosures of Proper Officers' remuneration specified by the Accounts Direction given by HM Treasury dated 8th May 2017 are not made.

I have no exceptions to report arising from this responsibility.

Responsibilities for the Accounts and the audit

My responsibilities and those of the Proper Officers

As explained more fully in the Statement of the Proper Officers' Responsibilities, the Proper Officers are responsible for the preparation of the Accounts in accordance with the Accounts Direction given by HM Treasury dated 8th May 2017, and for being satisfied that they give a true and fair view.

My responsibility is to audit and express an opinion on the Accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK and Ireland)"). Those

standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This Report, including the opinions, has been prepared for and only for The Duke of Cornwall in accordance with Section 9 of the Duchy of Cornwall Management Act 1982 and for no other purpose. I do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, save where expressly agreed by my prior consent in writing.

What an audit of financial statements involves

I conducted my audit in accordance with ISAs (UK and Ireland). An audit involves obtaining evidence about the amounts and disclosures in the Accounts sufficient to give reasonable assurance that the Accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's and the Duchy of Cornwall's circumstances, and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Proper Officers; and
- the overall presentation of the Accounts.

I primarily focus my work in these areas by assessing the Proper Officers' judgements against available evidence, forming my own judgements, and evaluating the disclosures in the Accounts.

I test and examine information, using sampling and other auditing techniques, to the extent I consider necessary to provide a reasonable basis for me to draw conclusions. I obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, I read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited Accounts, and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my report. With respect to the Strategic Report and Proper Officers' Report, I consider whether those reports include the disclosure required by the Accounts Direction given by HM Treasury dated 8th May 2017.

Other matters

In my opinion, any conditions or restrictions that are subject to:

- a sanction or approval under:
 - Section 11 of the Duchy of Cornwall Management Act 1863; or
 - Section 2 of the Duchy of Cornwall Management Act 1868; or
- an authorisation under Section 3 or 7 of the Duchy of Cornwall Management Act 1982

have been satisfied or complied with.

James Chalmers

Chartered Accountant
and Statutory Auditor
London

7th June 2017

Financial statements: Year ended 31st March 2017

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

Group Revenue Account Statement of Comprehensive Income

	Notes	Year ended 31 st March 2016 £'000	Year ended 31 st March 2017 £'000
Revenue	2	32,848	34,595
Operating costs	2	(13,070)	(13,365)
Operating surplus		19,778	21,230
Finance income	5	4,159	3,353
Finance costs	6	(3,459)	(3,787)
Net finance income/(costs)		700	(434)
Net surplus for the year		20,478	20,796
Surplus attributable to:			
Non-controlling interests		11	77
HRH		20,467	20,719
Other comprehensive income/(expense)			
Items that will not be reclassified subsequently to income statement:			
Actuarial gain/(loss) on retirement benefit obligations	7	1,064	(4,035)
Total comprehensive income on Revenue account		21,542	16,761
Total comprehensive income attributable to:			
Non-controlling interests		11	77
Duchy of Cornwall		21,531	16,684

The Duchy is not subject to corporation tax as it is not a separate legal entity for tax purposes. However, His Royal Highness voluntarily pays income tax on the Duchy's net surplus for the year (note 1).

Group Capital Account Statement of Comprehensive Income

	Notes	Year ended 31 st March 2016 £'000	Year ended 31 st March 2017 £'000
Net gain from fair value adjustment on investment property	8	9,405	17,781
Net gain on the disposal of investment property		2,722	773
Net gain on revaluation of investment property held for sale		2,027	1,719
Net gain on the disposal of investment property held for sale		790	969
Net (loss)/gain on the disposal of financial assets	11	(2,417)	1,812
Impairment of financial assets	11	(2,500)	(1,300)
Charge from Revenue for salary costs	2	(826)	(875)
Other costs		(501)	(355)
Net surplus for the year on Capital account		8,700	20,524
Other comprehensive (expense)/income			
Items that will not be reclassified subsequently to income statement:			
Net loss on revaluation of owner-occupied property	9	(679)	(637)
Items that may be reclassified subsequently to income statement:			
Net (loss)/gain on the revaluation of financial assets	11	(1,453)	4,512
Net (loss)/gain on the revaluation of financial derivatives	15	(2,283)	562
Total comprehensive income on Capital account		4,285	24,961

The notes on pages 54 to 81 are an integral part of these financial statements.

Group balance sheet

	Notes	As at 31 st March 2016 £'000	As at 31 st March 2017 £'000
Assets			
Non-current assets			
Investment property	8	902,373	912,661
Property, plant and equipment	9	13,733	13,936
Investment in joint venture	10	4,645	8,579
Financial assets	11	68,481	66,280
Trade and other receivables	12	6,300	3,700
Total non-current assets		995,532	1,005,156
Current assets			
Inventories		1,365	1,485
Trade and other receivables	12	8,396	10,763
Cash and cash equivalents		4,383	4,132
		14,144	16,380
Investment property assets held for sale	13	12,918	26,624
Total current assets		27,062	43,004
Total assets		1,022,594	1,048,160
Liabilities			
Current liabilities			
Trade and other payables	14	(22,413)	(23,848)
Borrowings	15	(208)	–
Total current liabilities		(22,621)	(23,848)
Non-current liabilities			
Trade and other payables	14	(10,684)	(10,506)
Borrowings	15	(100,000)	(100,000)
Derivative financial instruments	15	(8,375)	(8,020)
Retirement benefit obligations	7	(4,345)	(8,055)
Total non-current liabilities		(123,404)	(126,581)
Net assets		876,569	897,731
Reserves			
Revenue reserve available for distribution to HRH		3,327	3,486
Retirement benefit reserve		(5,874)	(9,909)
Capital reserve		887,380	911,779
Hedging reserve		(8,375)	(7,813)
		876,458	897,543
Non-controlling interest		111	188
Total reserves		876,569	897,731

The notes on pages 54 to 81 are an integral part of these financial statements.

The financial statements on pages 46 to 81 were approved by the Proper Officers and signed on their behalf by Alastair Martin, Secretary and Keeper of the Records, 7th June 2017.

Duchy of Cornwall balance sheet

	Notes	As at 31 st March 2016 £'000	As at 31 st March 2017 £'000
Assets			
Non-current assets			
Investment property	8	893,206	902,962
Property, plant and equipment	9	8,320	8,838
Investment in joint venture	10	4,645	8,579
Investment in subsidiaries	10	9,514	9,189
Financial assets	11	68,481	66,280
Trade and other receivables	12	12,950	10,350
Total non-current assets		997,116	1,006,198
Current assets			
Inventories		384	353
Trade and other receivables	12	7,258	9,434
Cash and cash equivalents		4,048	3,602
		11,690	13,389
Investment property assets held for sale	13	12,918	26,624
Total current assets		24,608	40,013
Total assets		1,021,724	1,046,211
Liabilities			
Current liabilities			
Trade and other payables	14	(22,141)	(23,330)
Total current liabilities		(22,141)	(23,330)
Non-current liabilities			
Trade and other payables	14	(10,684)	(10,506)
Borrowings	15	(100,000)	(100,000)
Derivative financial instruments	15	(8,375)	(8,020)
Retirement benefit obligations	7	(4,345)	(8,055)
Total non-current liabilities		(123,404)	(126,581)
Net assets		876,179	896,300
Reserves			
Revenue reserve available for distribution to HRH		3,483	3,209
Retirement benefit reserve		(5,874)	(9,909)
Capital reserve		886,945	910,813
Hedging reserve		(8,375)	(7,813)
Total reserves		876,179	896,300

The notes on pages 54 to 81 are an integral part of these financial statements.

The Duchy has elected under Section 408 of the Companies Act 2006, as allowed by the Accounts Direction given by HM Treasury dated 8th May 2017, not to include its own statement of comprehensive income in these financial statements. The result for the year for the Duchy was £20,286,000 (2016: £20,124,000).

The financial statements on pages 46 to 81 were approved by the Proper Officers and signed on their behalf by Alastair Martin, Secretary and Keeper of the Records, 7th June 2017.

Group statement of changes in capital and reserves

	Revenue account		Capital account		Total £'000	Non- controlling interest £'000	Total reserves £'000
	Revenue reserve £'000	Retirement benefit reserve £'000	Capital reserve £'000	Hedging reserve £'000			
Balance as at 1 st April 2015	3,198	(6,938)	880,812	(6,092)	870,980	100	871,080
Net surplus for the year	20,467	–	8,700	–	29,167	11	29,178
Other comprehensive income/(expense)							
Net loss on revaluation of owner-occupied property (note 9)	–	–	(679)	–	(679)	–	(679)
Net loss on revaluation of financial assets (note 11)	–	–	(1,453)	–	(1,453)	–	(1,453)
Loss on financial derivatives (note 15)	–	–	–	(2,283)	(2,283)	–	(2,283)
Actuarial gain on retirement benefit obligations (note 7)	–	1,064	–	–	1,064	–	1,064
Total comprehensive income/(expense)	20,467	1,064	6,568	(2,283)	25,816	11	25,827
	23,665	(5,874)	887,380	(8,375)	896,796	111	896,907
Less payments made to HRH							
In respect of current year	(17,140)	–	–	–	(17,140)	–	(17,140)
In respect of prior year	(3,198)	–	–	–	(3,198)	–	(3,198)
Balance as at 1st April 2016	3,327	(5,874)	887,380	(8,375)	876,458	111	876,569
	20,719	–	20,524	–	41,243	77	41,320
Net surplus for the year	20,719	–	20,524	–	41,243	77	41,320
Other comprehensive income/(expense)							
Net loss on revaluation of owner-occupied property (note 9)	–	–	(637)	–	(637)	–	(637)
Net gain on revaluation of financial assets (note 11)	–	–	4,512	–	4,512	–	4,512
Gain on financial derivatives (note 15)	–	–	–	562	562	–	562
Actuarial loss on retirement benefit obligations (note 7)	–	(4,035)	–	–	(4,035)	–	(4,035)
Total comprehensive income/(expense)	20,719	(4,035)	24,399	562	41,645	77	41,722
	24,046	(9,909)	911,779	(7,813)	918,103	188	918,291
Less payments made to HRH							
In respect of current year	(17,233)	–	–	–	(17,233)	–	(17,233)
In respect of prior year	(3,327)	–	–	–	(3,327)	–	(3,327)
Balance as at 31st March 2017	3,486	(9,909)	911,779	(7,813)	897,543	188	897,731

Revenue reserve: The revenue reserve and only the revenue reserve is available for distribution to HRH.

Capital reserve: The capital reserve contains the gains and losses on revaluation of assets held to generate income. Proceeds from disposal of capital assets have to be reinvested. Neither the gains/losses on revaluation nor the proceeds from disposal are available for distribution to HRH.

Duchy of Cornwall statement of changes in capital and reserves

	Revenue account		Capital account		Total reserves £'000
	Revenue reserve £'000	Retirement benefit reserve £'000	Capital reserve £'000	Hedging reserve £'000	
Balance as at 1 st April 2015	3,697	(6,938)	879,974	(6,092)	870,641
Net surplus for the year	20,124	–	9,103	–	29,227
Other comprehensive income/(expense)					
Net loss on revaluation of owner-occupied property (note 9)	–	–	(679)	–	(679)
Net loss on revaluation of financial assets	–	–	(1,453)	–	(1,453)
Loss on financial derivatives (note 15)	–	–	–	(2,283)	(2,283)
Actuarial gain on retirement benefit obligations (note 7)	–	1,064	–	–	1,064
Total comprehensive income/(expense)	20,124	1,064	6,971	(2,283)	25,876
	23,821	(5,874)	886,945	(8,375)	896,517
Less payments made to HRH					
In respect of current year	(17,140)	–	–	–	(17,140)
In respect of prior year	(3,198)	–	–	–	(3,198)
Balance as at 1st April 2016	3,483	(5,874)	886,945	(8,375)	876,179
	20,286	–	19,993	–	40,279
Net surplus for the year	20,286	–	19,993	–	40,279
Other comprehensive income/(expense)					
Net loss on revaluation of owner-occupied property (note 9)	–	–	(637)	–	(637)
Net gain on revaluation of financial assets	–	–	4,512	–	4,512
Gain on financial derivatives (note 15)	–	–	–	562	562
Actuarial loss on retirement benefit obligations (note 7)	–	(4,035)	–	–	(4,035)
Total comprehensive income/(expense)	20,286	(4,035)	23,868	562	40,681
	23,769	(9,909)	910,813	(7,813)	916,860
Less payments made to HRH					
In respect of current year	(17,233)	–	–	–	(17,233)
In respect of prior year	(3,327)	–	–	–	(3,327)
Balance as at 31st March 2017	3,209	(9,909)	910,813	(7,813)	896,300

Group statement of cash flows

	Notes	Year ended 31 st March 2016 £'000	Year ended 31 st March 2017 £'000
Cash generated from operating activities	16	17,692	20,177
Interest paid		(3,459)	(3,583)
Net cash from operating activities		14,233	16,594
Cash flows from investing activities			
Purchase of financial investments		(21,373)	(27,377)
Receipts of loan repayment		884	500
Capital injection in joint venture		(4,645)	(3,935)
Proceeds from disposal of financial investments		34,823	34,602
Purchase of investment property		(37,946)	(586)
Property improvements and development expenditure		(17,788)	(12,932)
Proceeds from disposal of investment properties		11,295	6,030
Purchase of property, plant and equipment		(1,224)	(1,641)
Proceeds from disposal of assets held for sale		6,456	6,338
Financial investment income received		3,333	2,372
Interest received		660	552
Net cash (outflow)/inflow from investing activities		(25,525)	3,923
Cash flows from financing activities			
Proceeds from borrowings/borrowings repaid		30,208	(208)
Payments made to HRH		(20,338)	(20,560)
Net cash inflow/(outflow) from financing activities		9,870	(20,768)
Decrease in cash in the year		(1,422)	(251)
Cash and cash equivalents at start of year		5,805	4,383
Cash and cash equivalents at end of year		4,383	4,132

Duchy of Cornwall statement of cash flows

	Notes	Year ended 31 st March 2016 £'000	Year ended 31 st March 2017 £'000
Cash generated from operating activities	16	16,536	18,854
Interest paid		(3,415)	(3,568)
Net cash from operating activities		13,121	15,286
Cash flows from investing activities			
Purchase of financial investments		(21,373)	(27,377)
Loans repaid		884	500
Investment in joint venture		(4,645)	(3,935)
Loans repaid by subsidiary undertakings		1,000	–
Distribution received from QMS		–	325
Proceeds from disposal of financial investments		34,823	34,602
Purchase of investment property		(37,946)	(586)
Property improvements and development expenditure		(17,788)	(12,932)
Proceeds from disposal of investment properties		11,295	6,030
Purchase of property, plant and equipment		(1,203)	(1,602)
Proceeds from disposal of assets held for sale		6,456	6,338
Financial investment income received		3,279	2,342
Interest received		1,275	1,123
Net cash (outflow)/inflow from investing activities		(23,943)	4,828
Cash flows from financing activities			
Borrowings repaid/proceeds from borrowings		30,000	–
Payments made to HRH		(20,338)	(20,560)
Net cash inflow/(outflow) from financing activities		9,662	(20,560)
Decrease in cash in the year		(1,160)	(446)
Cash and cash equivalents at start of year		5,208	4,048
Cash and cash equivalents at end of year		4,048	3,602

Notes to the financial statements

1 Accounting policies

Basis of preparation

The consolidated financial statements incorporate the financial statements of the Duchy of Cornwall and its subsidiary undertakings all prepared up to 31st March 2017.

The financial statements of the Group and the Duchy have been prepared on a going concern basis and in accordance with the Accounts Direction issued by HM Treasury dated 8th May 2017 (set out on pages A to B) and in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and International Accounting Standards Board's (IASB's) Interpretation Committee. The financial statements have been prepared in Sterling (rounded to the nearest thousand), which is the functional currency of the Group, and under the historical cost convention as modified by the revaluation of land and buildings, available for sale investments, derivative financial instruments and financial assets and liabilities held for trading. A summary of the more important Group accounting policies, which have been applied consistently across the Group, is set out below. The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may ultimately differ from those estimates.

No new standards, amendments or interpretations, effective for the first time for the financial year beginning on or after 1st April 2016 have had a material impact on the Group or the Duchy.

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1st April 2016, and have not been applied in preparing these consolidated financial statements. Effects noted as follows:

- IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the

bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument, and for the 'hedged ratio' to be the same as the one management actually uses for risk management purposes. Contemporaneous documentation is still required, but is different from that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1st January 2018. Early adoption is permitted, subject to EU endorsement. The main impact of IFRS 9 is likely to arise from the implementation of the expected loss model and the revised hedge effectiveness tests. The full quantification of this impact is still underway.

- IFRS 15, 'Revenue from contracts with customers', deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1st January 2018 and earlier application is permitted. The Group is assessing the impact of IFRS 15.
- IFRS 16, 'Leases', addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial

1 ACCOUNTING POLICIES (continued)

statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases will be accounted for on balance sheet for lessees. The standard replaces IAS 17 'Leases', and related interpretations. The standard is effective for annual periods beginning on or after 1st January 2019 and earlier application is permitted, subject to EU endorsement and the entity adopting IFRS 15 'Revenue from contracts with customers' at the same time. The full impact of IFRS 16 has not yet been assessed.

There are no other standards that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting periods, or on foreseeable future transactions.

Significant judgements, key assumptions and estimates

Carrying value of loans and receivables

The Group tests annually loans and receivable financial assets for indicators of impairment, and performs an impairment assessment if indicators of impairments are identified. The recoverable amount of loans and receivables is determined using valuation techniques, and the Group uses its judgement to make assumptions based on the conditions existing at the end of each reporting period and information available.

Operating leases

The Proper Officers have exercised judgement in determining that in all material respects, where the Duchy of Cornwall 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), and whether substantially all the risks and rewards of ownership remain with the Duchy.

Property valuations

Investment properties, owner-occupied property and investment property assets 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.

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 and 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 that incorporate at least one input (with a potentially significant impact on valuation), which is based on unobservable market data. The valuation techniques considered include the market approach that uses comparable market transactions, and the income approach, which is based on the net present value of estimated future cash flows adjusted for factors such as credit, liquidity and market risk. Inputs may include price information, volatility statistics, credit data, liquidity statistics and other factors. As a result Level 3 investments require significant judgement on behalf of both the investment managers and Duchy management.

Revenue

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for services provided or goods supplied, stated net of discounts and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below.

Property income

This comprises rental income and premiums on lease surrenders on investment properties for the year, exclusive of service charges receivable.

Sales of produce at the Duchy's Nursery

The Group operates a nursery selling plants and other goods. Sales of goods are recognised when a product is sold to the customer. Sales are usually in cash or by credit card.

Income at J V Energen LLP

The Group has controlling interest in J V Energen LLP, which has built and runs an anaerobic digestion and biomethane injection plant at Dorchester, Dorset. Income is recognised when biomethane is injected into the local gas distribution network or when electricity is exported to the grid. Sales of energy are invoiced and renewable energy subsidies are applied for via Ofgem.

Other income

Other income is recognised on an accruals basis in accordance with the substance of the relevant agreements.

1 ACCOUNTING POLICIES (continued)

Finance income

Income in respect of bank interest, fixed interest and corporate bond investments is accounted for on an accruals basis under the effective interest rate method. Equity income is included on a receipts basis.

Foreign currencies

All foreign exchange dealings relate to the Capital account. Foreign currency transactions are translated into Sterling at rates prevailing at the dates of transaction or at the year-end rate where items are remeasured.

Gains and losses arising on conversion or translation are dealt with as part of realised and unrealised investment gains and losses within the Capital Account Statement of Comprehensive Income.

Post-retirement benefits

The Group operates post-employment schemes that include both defined benefit and defined contribution plans. The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period, less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows against interest rates. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Past service costs are recognised immediately in the operating surplus.

For defined contribution plans the Duchy pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary

basis. The Duchy has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Net revenue surplus for the year

The Duchy of Cornwall is not subject to tax. Since 6th April 1993, on a voluntary basis, His Royal Highness has paid income tax at the prevailing rates in respect of the net revenue surplus of the Duchy for the year.

Investment property valuation

Investment properties, including those held for development, are valued on the basis of fair value. Investment properties are those held to earn income and/or capital appreciation. Any surplus or deficit on the revaluation of investment properties is recognised within the Capital Account Statement of Comprehensive Income.

Marine and mineral interests included within investment property are only specifically valued where a letting exists or where an interest is likely to be sold for a capital premium in the next year. The interests are valued on an existing-use basis.

Owner-occupied property

Properties occupied by the Duchy of Cornwall 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: owner-occupied property is maintained to a high standard and will continue to be so. As a result, 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.

Investment property assets held for sale

Properties being actively marketed with the intention of disposal within 12 months of the balance sheet date and meeting the IFRS 5 criteria are held at fair value.

They are shown within the balance sheet as investment property assets within current assets. Any surplus or deficit arising on the revaluation of property assets held for sale is recognised within the Capital Account Statement of Comprehensive Income.

Disposal of properties

Proceeds from sale of property is recognised as payment received on account until 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 properties is taken to the Capital Account Statement of Comprehensive Income. The profit or loss on disposal is determined as the difference between the sale proceeds and the carrying value of the asset at the commencement of the accounting period plus additions in the period and costs of sale. Properties transferred between categories are also valued at the carrying value at the commencement of the accounting period.

Impairment

All properties are carried at fair value. Impairment of other asset types is discussed, where relevant, within their respective accounting policies.

Leases

All leases and property agreements granted to tenants are accounted for as operating leases, as substantially all of the risks and rewards are retained by the Duchy.

1 ACCOUNTING POLICIES (continued)

Plant and equipment

Plant and equipment is stated at historical purchase cost less accumulated depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

Plant and equipment is purchased out of the Capital account under the terms of warrants issued under Section 7 of the Duchy of Cornwall Management Act 1982.

The plant and equipment is depreciated on a straight line basis, over the expected useful life, and repaid out of the Revenue Account Statement of Comprehensive Income applying the following rates:

- motor vehicles – 25% per annum; and
- plant and equipment – 4–33% per annum.

The plant and equipment residual values and useful lives are reviewed and adjusted if appropriate at each financial year-end. The carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount.

Financial investments

Available for sale financial investments are measured at fair value with profits or losses on revaluation being taken to the Capital Account Statement of Comprehensive Income. Loans and receivable financial investments are initially recognised at fair value and subsequently measured at amortised cost under the effective interest method.

Consolidation**Subsidiaries**

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its

involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date; any gains or losses arising from such remeasurement are recognised in profit or loss.

Inter-company transactions, balances, income and expenses on transactions between Group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Associates and joint ventures

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Joint ventures are undertakings in which the Duchy has an interest and which are jointly controlled by the Duchy and one or more other parties. Investments in associates and joint ventures are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition.

The Group's share of post-acquisition profits or losses is recognised in the Revenue Account Statement of Comprehensive Income. Its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income, with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

Inventories

Wood, nursery and other stocks are valued at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) basis. Inventory is presented net of provisions held for slow moving, obsolete or damaged items.

1 ACCOUNTING POLICIES (continued)

Provisions

Provisions are recognised when the Duchy has an obligation in respect of a past event, where it is more likely than not that payment (or a non-cash settlement) will be required to settle the obligation, and where the amount can be reliably estimated. Provisions are discounted when the time value of money is considered material.

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand.

Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently held at amortised cost less allowances for situations where recovery is doubtful. Such allowances are based on an individual assessment of each receivable. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Subsequent recoveries of amounts previously written off are credited against "operating costs" in the income statement.

Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Borrowings

Borrowings are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

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.

Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured 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 Duchy documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Duchy also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in note 15. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of hedging instrument is more than 12 months, and as a current asset or liability when the remaining maturity of the hedging instrument is less than 12 months.

Cash flow hedge

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 Statement of Comprehensive Income. The ineffective portion of changes in fair value of derivatives is recognised in the surplus or deficit within the Capital Account Statement of Comprehensive Income. Amounts accumulated in reserves are reclassified to Revenue Account Statement of Comprehensive Income in the periods when the hedged transaction takes place.

When a hedging instrument expires, is sold, or no longer meets the criteria for hedge accounting, any effective cumulative gain or loss existing in reserves at that time remains in reserves and is recognised when the forecast transaction is ultimately recognised in the Revenue Account Statement of Comprehensive Income. Any resulting ineffectiveness will be taken to the Capital Account Statement of Comprehensive Income.

Investment in subsidiaries and associate undertakings

Investments in subsidiaries and associate undertakings are held at cost, less accumulated impairment losses by the Duchy.

2 Analysis of Revenue account operating surplus

	Notes	Year ended 31 st March 2016 £'000	Year ended 31 st March 2017 £'000
Property income:			
Agricultural income		7,906	7,947
Commercial income		14,498	15,406
Residential income		5,902	6,059
Total property income		28,306	29,412
Sale of goods		4,542	5,183
Total operating income		32,848	34,595
Staff costs	4	4,783	4,813
Charge to Capital account		(826)	(875)
		3,957	3,938
Direct cost of sales		2,076	2,268
Depreciation	9	762	849
Repairs and maintenance		2,712	2,795
Administration		2,932	2,836
Other operating costs		631	679
Total operating costs		13,070	13,365
Operating surplus		19,778	21,230

An analysis of the Capital account operating surplus is not deemed necessary given the nature of the transactions and disclosure within the primary statements.

During the year the Group obtained the following services from the Duchy of Cornwall's auditor and his associates:

	Year ended 31 st March 2016 £	Year ended 31 st March 2017 £
Fees payable to the Duchy of Cornwall auditor for the audit of the Duchy and consolidated financial statements	75,500	80,650
Fees payable to the Duchy of Cornwall auditor and his associates for other services:		
Tax consultancy fees	–	4,000
The audit of QMS (Poundbury) LLP	7,200	5,400
	82,700	90,050

3 Leasing: Operating leases with tenants

The Duchy of Cornwall leases out all of its investment properties under operating leases with, on average, 83 years remaining to expiry. The aggregate minimum rentals, excluding contingent rents, receivable under non-cancellable leases are as follows:

	Year ended 31 st March 2016 £'000	Year ended 31 st March 2017 £'000
Less than one year	16,824	17,569
Between two to five years	60,635	61,777
After five years	321,932	313,683
	399,391	393,029

	Year ended 31 st March 2016 £'000	Year ended 31 st March 2017 £'000
Contingent rents receivable	1,393	1,463

The value of the assets generating this rental income is detailed in note 8.

4 Staff costs

The average number of full-time equivalent staff employed by the Duchy during the year was 100 (2016: 100). The split of staff was: Administrative 67, estate workers 13, nursery 20 (2016: Administrative 66, estate workers 15, nursery 19). The total remuneration for the Group was £4,813,000 (2016: £4,783,000) comprising:

	Group Year ended 31 st March 2016 £'000	Duchy Year ended 31 st March 2016 £'000	Group Year ended 31 st March 2017 £'000	Duchy Year ended 31 st March 2017 £'000
Wages and salaries	3,258	3,083	3,544	3,322
Social security costs	331	320	341	323
Pension costs	833	833	759	759
Other staff costs	361	361	169	169
	4,783	4,597	4,813	4,573

Staff costs of £875,000 (2016: £826,000) are charged to the Capital account reflecting the extent that they are deemed to be enhancing its value.

Other staff costs include benefits (such as health insurance) and skill enhancement costs for appropriate staff.

The emoluments of members of The Prince's Council were as follows:

	Year ended 31 st March 2016 £	Year ended 31 st March 2017 £
Alastair Martin	237,196	256,607
Jonathan Crow	3,000	3,000
Mark Thomas	8,000	8,000
	248,196	267,607

In addition, pension contributions of £36,000 (2016: £33,750) were paid into a Money Purchase Scheme for Alastair Martin.

5 Finance income – Group

	Year ended 31 st March 2016 £'000	Year ended 31 st March 2017 £'000
Income from investments	3,499	2,801
Bank interest	7	8
Loan interest	653	544
	4,159	3,353

6 Finance costs – Group

	Year ended 31 st March 2016 £'000	Year ended 31 st March 2017 £'000
Loan interest	3,459	3,787

Loan interest cost recognised for the year ended 2017 included £2,231,000 transferred from hedging reserve in relation to the interest rate swaps.

7 Retirement benefit obligations – Group and the Duchy

The Duchy operates a defined benefit scheme in the UK, which is a final salary scheme and provides benefits linked to salary at retirement or earlier date of leaving service. The Scheme is open to future accrual, but closed to new entrants.

The last completed actuarial valuation as at 1st January 2016 showed a funding deficit at that date of £6,662,000.

The Duchy agreed with the trustees of the Duchy of Cornwall Staff Pension Scheme a recovery plan to eliminate this funding shortfall by making additional contributions over a nine-year period backdated to the valuation date. The results of the valuation as at 1st January 2016 have been used as a basis and then rolled forward to 31st March 2017.

The Scheme operates under the Pensions Act 2004.

Trustees have the primary responsibility for governance of the Scheme. Benefit payments are from trustee-administered funds and Scheme assets are held in trusts, which are governed by UK regulation.

Responsibility for governance of the Scheme, including setting contribution rates, lies jointly with the Duchy and the trustees. However, investment decisions are the responsibility of the trustees only. The trustees are comprised of nominations from the Duchy and members in accordance with the Trust Deed and Rules.

Description of risks to which the Scheme exposes the Duchy

- Asset volatility – if the Scheme's assets underperform the discount rate, a deficit may result and so to mitigate this, the trustees have agreed that the Scheme's investment strategy will be derisked over time. This is achieved by funding triggers that allow the Scheme to take advantage of favourable market conditions and developments in the funding level. If the funding level improves by a predetermined amount, then a switch to increase the target allocation for liability matching assets will be made.

- Inflation – the majority of benefits are linked to inflation and so increases in inflation will lead to higher liabilities (although for most increases there are caps in place that protect against extreme inflation).
- Longevity – increases in life expectancy will increase the period over which benefits are expected to be payable, which increases the value placed on the Scheme's liabilities.

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

7 RETIREMENT BENEFIT OBLIGATIONS – GROUP AND THE DUCHY (continued)

Recognition of funded status

The amounts to be recognised in the balance sheet are determined as follows:

	Year ended 31 st March 2016 £'000	Year ended 31 st March 2017 £'000
Fair value of assets at end of year	19,234	22,841
Present value of obligations at end of year	(23,579)	(30,896)
Net defined benefit obligation	(4,345)	(8,055)

Expense recognised in income statement

	Year ended 31 st March 2016 £'000	Year ended 31 st March 2017 £'000
Current service cost	407	341
Administration expenses	203	176
Operating expense	610	517
Net interest on the net defined benefit obligation	162	132
Total expense recognised in income statement	772	649

Reconciliation of value of defined benefit obligations over the year

The movement in defined benefit obligations over the year was as follows:

	Year ended 31 st March 2016 £'000	Year ended 31 st March 2017 £'000
Present value of obligations at start of year	25,501	23,579
Current service cost	407	341
Interest cost	788	772
Distributions	(985)	(1,049)
Experience losses/(gains)	2	(232)
Actuarial (gains)/losses arising from change in financial assumptions	(2,134)	6,704
Actuarial losses arising from change in demographic assumptions	–	781
Present value of obligations at end of year	23,579	30,896

7 RETIREMENT BENEFIT OBLIGATIONS – GROUP AND THE DUCHY (continued)

Reconciliation of fair value of assets

The movement in the fair value of the assets over the year was as follows:

	31 st March 2016 £'000	31 st March 2017 £'000
Fair value of assets at start of year	20,056	19,234
Employer contributions	808	974
Interest income	626	640
Return on Scheme assets excluding interest income	(1,068)	3,218
Distributions	(985)	(1,049)
Administration expenses and death in service premia	(203)	(176)
Fair value of assets at end of year	19,234	22,841

Movement in net defined benefit obligation over the year

	31 st March 2016 £'000	31 st March 2017 £'000
Net defined benefit obligation at beginning of the year	(5,445)	(4,345)
Employer contributions	808	974
Expense recognised in income statement	(772)	(649)
Remeasurement gain/(loss) recognised in OCI	1,064	(4,035)
Net defined benefit obligation at end of the year	(4,345)	(8,055)

Remeasurement effects recognised in other comprehensive income (OCI)

	Year ended 31 st March 2016 £'000	Year ended 31 st March 2017 £'000
Return on Scheme assets excluding interest income	(1,068)	3,218
Experience (losses)/gains on obligations	(2)	232
Actuarial gains/(losses) arising from change in financial assumptions	2,134	(6,704)
Actuarial losses arising from change in demographic assumptions	–	(781)
Total gains/(losses) recognised in OCI	1,064	(4,035)

7 RETIREMENT BENEFIT OBLIGATIONS – GROUP AND THE DUCHY (continued)

Actuarial assumptions at end of year

	31 st March 2016	31 st March 2017
Discount rate (p.a.)	3.35%	2.40%
Salary increases (p.a.)	4.05%	4.50%
RPI inflation (p.a.)	2.80%	3.25%
CPI inflation (p.a.)	1.80%	2.25%
Pension increases: RPI min 0%, max 5% (p.a.)	2.75%	3.15%
Post-retirement mortality (base table)	80% S1PXA	86% of S2PMA for males/ 80% of S2PFA for females
Post-retirement mortality (improvements)	Year of birth, CMI 2011 projections with a 1.0% p.a. long-term trend (from 2008 onwards)	Year of birth, CMI 2015 projections with a 1.50% p.a. long-term trend for males and a 1.25% p.a. long-term trend for females (from 2008 onwards)

Sensitivity analysis

Based on the assumptions set out above, the impact on the present value of the defined benefit obligations of changing the following individual assumptions (with all other assumptions remaining unchanged) is set out below.

Value of obligations at the end of the year if:	31 st March 2017 £'000
Discount rate reduced by 0.25% p.a.	32,470
Discount rate increased by 0.25% p.a.	29,432
Salary increases increased by 0.25% p.a.	31,204
Salary increases decreased by 0.25% p.a.	30,596
Inflation increased by 0.25%* p.a.	32,023
Inflation decreased by 0.25%* p.a.	29,580
Life expectancy increased by approximately one year	32,094
Life expectancy decreased by approximately one year	29,706

* This sensitivity allows for the impact on all inflation-related assumptions – salary increases, deferred revaluation and pension increases (subject to the relevant caps and floors).

The above analyses assume that assumption changes occur in isolation, except in the case of inflation where any change is assumed to have a corresponding impact on salary increases, deferred revaluation and inflation-linked pension increases. In practice this is unlikely to occur and some assumptions may be correlated. The same method (projected unit method) has been applied when calculating these sensitivities.

Description of any asset-liability matching strategies

The trustees have agreed that the Scheme's investment strategy will be derisked over time. This is done by funding triggers that allow the Scheme to take advantage of favourable market conditions and developments in the funding level. If the funding level improves by a predetermined amount, then a switch to increase the target allocation for liability matching assets will be made.

7 RETIREMENT BENEFIT OBLIGATIONS – GROUP AND THE DUCHY (continued)

Breakdown of value of assets at end of year

The following tables provide information on the composition and fair value of assets of the Scheme.

	Quoted £'000	Unquoted £'000	Total £'000
UK equities	5,049	–	5,049
Overseas equities	7,630	–	7,630
Index-linked gilts	5,233	–	5,233
UK corporate bonds: investment grade	4,770	–	4,770
Cash and net current assets	–	159	159
At 31st March 2017	22,682	159	22,841

	Quoted £'000	Unquoted £'000	Total £'000
UK equities	4,130	–	4,130
Overseas equities	6,517	–	6,517
Index-linked gilts	4,301	–	4,301
UK corporate bonds	4,215	–	4,215
Cash and net current assets	–	71	71
At 31st March 2016	19,163	71	19,234

Effect of the Scheme on the Duchy's future cash flows

Description of any funding arrangements and funding policy that would affect future contributions:

The Scheme is currently in deficit on a funding basis. Funding levels are monitored on an annual basis, and the next triennial valuation is due to be completed with an effective date of 1st January 2019.

The Duchy's best estimate of contributions to be paid over following year (£'000)	866
Estimated duration of the liabilities (years)	20
Expected future benefit payments (£'000)	
Year ending 31 st March 2018	809
Year ending 31 st March 2019	824
Year ending 31 st March 2020	854
Year ending 31 st March 2021	873
Year ending 31 st March 2022	945
Five years ending 31 st March 2027	5,417

The Duchy also contributes to defined contribution scheme arrangements, the charge for which was £313,000 (2016: £282,000).

8 Investment property – Group

	Agricultural & forestry £'000	Commercial £'000	Residential £'000	Development land £'000	Total £'000
At 31st March 2015	412,149	201,418	188,132	48,021	849,720
Additions	748	36,728	467	2	37,945
Capital improvements	3,408	520	1,824	–	5,752
Capitalised development expenditure	–	–	–	16,484	16,484
Transfer to property, plant and equipment – at fair value	–	(467)	–	–	(467)
Transfer from joint venture	140	–	–	541	681
Transfer to investment property assets held for sale	(427)	–	(756)	(5,439)	(6,622)
Disposals	(88)	–	(1,119)	(9,318)	(10,525)
Net (loss)/gain from fair value adjustments on investment property	(4,484)	12,322	2,096	(529)	9,405
At 31st March 2016	411,446	250,521	190,644	49,762	902,373
Additions	586	–	–	–	586
Capital improvements	2,370	461	1,255	–	4,086
Capitalised development expenditure	–	–	–	8,354	8,354
Transfer to property, plant and equipment – at fair value	–	(48)	–	–	(48)
Transfer from current assets held for sale	50	–	–	–	50
Transfer to investment property assets held for sale	(8,381)	(4,765)	(729)	(3,103)	(16,978)
Transfer between investment property categories	–	12,272	–	(12,272)	–
Disposals	(118)	(432)	(1,341)	(1,652)	(3,543)
Net (loss)/gain from fair value adjustments on investment property	(884)	8,080	4,978	5,607	17,781
At 31st March 2017	405,069	266,089	194,807	46,696	912,661

8 Investment property – the Duchy

	Agricultural & forestry £'000	Commercial £'000	Residential £'000	Development land £'000	Total £'000
At 31st March 2015	412,149	195,071	184,909	48,021	840,150
Additions	748	36,728	467	2	37,945
Capital improvements	3,408	520	1,824	–	5,752
Capitalised development expenditure	–	–	–	16,484	16,484
Transfer to property, plant and equipment – at fair value	–	(467)	–	–	(467)
Transfers from investment property assets held for sale	140	–	–	541	681
Transfer to investment property assets held for sale	(427)	–	(756)	(5,439)	(6,622)
Disposals	(88)	–	(1,119)	(9,318)	(10,525)
Net gain/(loss) from fair value adjustments on investment property	(4,484)	11,502	3,319	(529)	9,808
At 31st March 2016	411,446	243,354	188,644	49,762	893,206
Additions	586	–	–	–	586
Capital improvements	2,370	461	1,255	–	4,086
Capitalised development expenditure	–	–	–	8,354	8,354
Transfer to property, plant and equipment – at fair value	–	(48)	–	–	(48)
Transfer from current assets held for sale	50	–	–	–	50
Transfer to investment property assets held for sale	(8,381)	(4,765)	(729)	(3,103)	(16,978)
Transfer between investment property categories	–	12,272	–	(12,272)	–
Disposals	(118)	(432)	(1,341)	(1,652)	(3,543)
Net (loss)/gain from fair value adjustments on investment property	(884)	7,415	5,111	5,607	17,249
At 31st March 2017	405,069	258,257	192,940	46,696	902,962

8 Investment property – Group and the Duchy

Fair values of land and buildings

The Duchy holds four main classes of investment property: Commercial property (Urban and Rural), Agricultural property (Agricultural, Forestry and Other Rural Assets), Residential property and Development Land. The Duchy's investment property is measured at fair value. For all properties the current use equates to the highest and best use.

All properties are valued on an annual basis. Some 20% by number of the properties in the rural estate are valued by Savills on a rotational basis. The remaining rural estate properties are valued by internal valuers who are Chartered Surveyors and are employees of the Duchy of Cornwall. The internal valuers have detailed management knowledge of the properties concerned. The internal valuation team is led by one of the Duchy's employees, a Chartered Surveyor and Registered Valuer, supported by the Duchy's Finance Director. All of the London residential properties are valued externally by Cluttons each year, and all of the urban commercial properties are valued externally by Savills each year. Development land is valued externally each year by Savills. All valuations are in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors.

Valuation fees for external valuers are a fixed amount agreed prior to the valuation and independent of the portfolio value. Internal valuers are not incentivised in any way in relation to property value.

Fair value measurements using significant unobservable inputs (Level 3)

The fair value of the Duchy's property portfolio is determined using a variety of techniques depending on the property type and the terms of the lease. These techniques include the yield methodology, adjusted sales comparison approach and discounted cash flow, and are consistent with IFRS 13 Fair Value Measurement. They involve a degree of judgement and use data that is not widely publicly available. Inputs to the valuations, some of which are "unobservable" as defined by IFRS 13, include capitalisation rates, discount rates and comparable market values for both rents and vacant possession values. For these reasons, and consistent with EPRAs guidance and practice adopted within the property sector, all valuations of the Duchy's property portfolio are classified as Level 3 as defined by IFRS 13.

Valuation processes

Property is valued according to one or more of the following three approaches:

- Yield methodology:** The value of the income stream for the term of the lease, by reference to the current rent for the property, rent review provisions, market rent for similar properties, and capitalisation rates from similar properties traded in the same geographic region.
- Adjusted sales comparison approach:** The vacant possession value of similar properties, the time until vacant possession will be achieved, and discount rates for similar properties traded in the same geographic region.
- Discounted cash flow:** Net future cash flows for the duration of a project are discounted at an appropriate rate, and a risk factor may be applied.

The external valuers provide capitalisation and discount rates. They review all valuations performed by the internal valuers and consider all major inputs to the valuation process, including market rents, comparable vacant possession values for similar properties and the unexpired term of leases. Together with the Duchy's internal lead valuer and finance team, they review the output from the valuation including the valuation techniques used for each property, adjustments made to default values for unobservable inputs, and the correlation of valuation inputs to data from the Duchy's property and financial systems. They assess valuation movements compared to the prior year valuation (at a property, valuer, regional and property-type level), and review ratios of let value to vacant possession value, values per square metre or per hectare, effective yields and comparisons to property market indices.

All development land is valued externally, the majority on the basis of discounted cash flows. Inputs are applied to each section of each development site, taking into consideration the specific situation for each site – the stage of development, the extent of planning permissions, and the contractual arrangements in place. Detailed discussions are held between the external valuers and the Duchy's Estates Surveyor, Poundbury Estates Director and Finance Director. The two main uncertainties in valuing development land are the eventual market prices for the buildings and land at each site, and the rate of future sales.

The valuation results are reviewed by the Duchy's Finance & Audit Committee.

8 INVESTMENT PROPERTY – GROUP AND THE DUCHY (continued)

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

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

Impact on fair value of changes to capitalisation and discount rates (ceteris paribus)

All in £'000	Increase of 50 basis points	As disclosed (Duchy)	Decrease of 50 basis points
Agricultural	309,312	359,700	458,919
Other rural assets	25,446	26,517	27,677
Urban commercial	177,339	196,759	219,534
Rural commercial	58,272	61,498	65,257
Residential property	189,445	192,940	196,919

Impact on fair value of changes to market rental values (ceteris paribus)

All in £'000	Increase of 10%	As disclosed	Decrease of 10%
Urban commercial	210,244	196,759	182,769

The fair values at the balance sheet date, valuation techniques, nature and, where meaningful, range of unobservable inputs are shown in the table opposite for each class of investment property.

8 INVESTMENT PROPERTY – GROUP AND THE DUCHY (continued)

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

Property type	Fair value at 31 st March 2017 £'000	Valuation techniques	Unobservable inputs	Range of unobservable inputs (where meaningful)		
Agricultural & forestry	£359,700	Yield methodology	Rental values	–		
			Capitalisation rate	Farms: 1.7% to 3.5% Bare land: 7% to 9%		
			Adjusted sales comparison approach	Adjusted comparable vacant possession values	–	
			Discount rate for terminal value	4.2% to 6%		
			Estimate of period until vacant possession achieved	0 to 82 years (average 5 years)		
		Forestry	£18,852	Adjusted sales comparison approach	Price per hectare	£2,471 to £49,420 (average £10,219) per hectare
					Other rural assets	£26,517
		Capitalisation rate	8% to 10%			
		Discount rate for terminal value	8.5% to 12%			
		Total	£405,069			
Commercial	£196,759	Yield methodology	Rental values	Industrial: £61 to £86 psm Office: £215 to £700 psm Retail: £81 to £1,884 psm		
			Capitalisation rate	Industrial: 4.9% to 6.6% Office: 3.5% to 4.5% Retail: 4.8% to 5.4% Other: 3.2% to 7.8%		
			Rural commercial	£61,498	Yield methodology	Rental values
		Capitalisation rate	7.5% to 11%			
		Total	£258,257			
		Residential	£192,940	Yield methodology	Rental values	–
Capitalisation rate	3.5% to 10%					
Adjusted sales comparison approach	Adjusted comparable vacant possession values			–		
	Discount rate for terminal value			4% to 10%		
	Estimate of period until vacant possession achieved, for short-term lets			0 to 21 years (average 1.2 years) Fair value £113m		
	Estimate of period until vacant possession achieved, for long-term lets			0 to 165 years (average 33 years) Fair value £80m		
Development land	£46,696	Discounted cash flow	Discount rate	7% to 8% (average 7.3%)		
			Risk factor	0% to 55% (average 10.5%)		
			Time to completion	< 1 year, to 21 years (average 5.6 years)		

9 Property, plant and equipment – Group

	Motor vehicles £'000	Plant and equipment £'000	Owner-occupied property £'000	Total £'000
At 31st March 2015				
Cost/valuation	191	11,471	5,335	16,997
Accumulated depreciation	(155)	(3,359)	–	(3,514)
Net book value	36	8,112	5,335	13,483
Year ended 31st March 2016				
Additions/improvements	47	450	727	1,224
Transfer from investment property	–	–	467	467
Fully written down – cost	(81)	(297)	–	(378)
Depreciation charge	(32)	(730)	–	(762)
Fully written down – depreciation	81	297	–	378
Revaluation	–	–	(679)	(679)
At 31st March 2016	51	7,832	5,850	13,733
At 31st March 2016				
Cost/valuation	157	11,624	5,850	17,631
Accumulated depreciation	(106)	(3,792)	–	(3,898)
Net book value	51	7,832	5,850	13,733
Year ended 31st March 2017				
Additions/improvements	71	772	798	1,641
Transfer from investment property	–	–	48	48
Fully written down – cost	(27)	(165)	–	(192)
Depreciation charge	(42)	(807)	–	(849)
Fully written down – depreciation	27	165	–	192
Revaluation	–	–	(637)	(637)
At 31st March 2017	80	7,797	6,059	13,936
At 31st March 2017				
Cost/valuation	201	12,232	6,059	18,492
Accumulated depreciation	(121)	(4,435)	–	(4,556)
Net book value	80	7,797	6,059	13,936

9 Property, plant and equipment – the Duchy

	Motor vehicles £'000	Plant and equipment £'000	Owner-occupied property £'000	Total £'000
At 31st March 2015				
Cost/valuation	191	4,702	5,335	10,228
Accumulated depreciation	(155)	(2,337)	–	(2,492)
Net book value	36	2,365	5,335	7,736
Year ended 31st March 2016				
Additions/improvements	47	429	727	1,203
Transfer from investment property	–	–	467	467
Fully written down – cost	(81)	(297)	–	(378)
Depreciation charge	(32)	(375)	–	(407)
Fully written down – depreciation	81	297	–	378
Revaluation	–	–	(679)	(679)
At 31st March 2016	51	2,419	5,850	8,320
At 31st March 2016				
Cost/valuation	157	4,834	5,850	10,841
Accumulated depreciation	(106)	(2,415)	–	(2,521)
Net book value	51	2,419	5,850	8,320
Year ended 31st March 2017				
Additions/improvements	71	733	798	1,602
Transfer from investment property	–	–	48	48
Fully written down – cost	(27)	(165)	–	(192)
Depreciation charge	(42)	(453)	–	(495)
Fully written down – depreciation	27	165	–	192
Revaluation	–	–	(637)	(637)
At 31st March 2017	80	2,699	6,059	8,838
At 31st March 2017				
Cost/valuation	201	5,403	6,059	11,663
Accumulated depreciation	(121)	(2,704)	–	(2,825)
Net book value	80	2,699	6,059	8,838

An independent valuation of the Group's land and buildings was performed by valuers – see note 8 for further details. The revaluation surplus was credited to other comprehensive income and is shown in Capital reserve.

10 Investments in joint venture and subsidiaries

The Group has the following undertakings for the year ended 31st March 2017:

Name	Entity type	Principal activity	% of holding
QMS (Poundbury) LLP*	Partnership	Investment property	100
RP (Poundbury) LLP**	Partnership	Investment property	50
J V Energen LLP***	Partnership	Energy supply	54
Barrow Shipping Ltd***	Company	Biomethane shipping and marketing	16

*Registered Office: 66 Lincoln's Inn Fields, London, WC2A 3LH

**Registered Office: c/o C G Fry & Sons, Litton Cheney, Dorchester, Dorset DT2 9AW

***Registered Office: c/o Wilkin Chapman LLP, The Maltings, Brayford Wharf, East Lincoln, LN5 7AY

Investment in joint venture

As at 31st March 2017, the Duchy owned 50% of the members' capital of RP (Poundbury) LLP.

	£'000
Balance at 31 st March 2016	4,645
Invested in year	3,935
Share of loss	(1)
Balance at 31st March 2017	8,579

RP (Poundbury) LLP was incorporated on 14th March 2015 and commenced trading on that date. The principal activity of RP (Poundbury) LLP during the year was property development.

The latest audited accounts were produced for the period ended 31st March 2017. The aggregate assets, liabilities, revenue and results for RP (Poundbury) LLP were as follows:

	Year ended 31 st March 2017 £'000
Assets	17,157
Liabilities	(4)
Revenue	–
Loss	(2)

The Group's share of the loss has been included within Other costs in the Capital Account Statement of Comprehensive Income.

10 INVESTMENTS IN JOINT VENTURE AND SUBSIDIARIES (continued)

Investments in subsidiaries

	Year ended 31 st March 2016 £'000	Year ended 31 st March 2017 £'000
QMS (Poundbury) LLP	8,864	8,539
J V Energen LLP	650	650
	9,514	9,189

During the year the Duchy retained 54% of the members' capital of J V Energen LLP for £650,000 and is entitled to 59% of the partnership profits. The Duchy has also provided loans to the partnership as described in note 12.

The principal activity of QMS (Poundbury) LLP during the year was the commercial operation of a retail, residential and office building.

The latest audited accounts of QMS (Poundbury) LLP were produced for the year ended 31st March 2017. The revenue and results for QMS (Poundbury) LLP were as follows:

	Year ended 31 st March 2016 £'000	Year ended 31 st March 2017 £'000
Revenue	423	441
Profit	327	323

The partnerships have been consolidated within these financial statements. The investment in the Group entities are recorded at cost in the Duchy's own financial statements, which is the fair value of the consideration paid.

11 Financial assets – Group and the Duchy

	Available for sale					Loan and receivable £'000	Total £'000
	Equity securities Level 1 £'000	Fixed interest securities Level 1 £'000	Private equity funds Level 2 £'000	Private equity funds Level 3 £'000	Equity securities Level 3 £'000		
At 31st March 2015	33,295	23,284	16,170	9,796	756	5,000	88,301
Purchases	20,400	–	–	951	22	–	21,373
Sale proceeds	(25,916)	(3,570)	(3,184)	(1,923)	(230)	–	(34,823)
Loss on sale	(2,417)	–	–	–	–	–	(2,417)
Revaluation	394	(1,478)	(326)	(247)	204	–	(1,453)
Impairment	–	–	–	–	–	(2,500)	(2,500)
At 31st March 2016	25,756	18,236	12,660	8,577	752	2,500	68,481
Purchases	–	27,222	–	151	4	–	27,377
Sale proceeds	–	(19,950)	(12,760)	(1,313)	(579)	–	(34,602)
Gain on sale	–	1,712	100	–	–	–	1,812
Revaluation	2,094	613	–	1,743	62	–	4,512
Impairment	–	–	–	–	–	(1,300)	(1,300)
At 31st March 2017	27,850	27,833	–	9,158	239	1,200	66,280

The fair values of financial investments classified as Level 1 are based on quoted market prices on the 31st March 2017. Level 2 financial instruments are valued based significantly on observable market data at 31st March 2017. Level 3 investments are valued using valuation techniques in which at least one input is not based on observable market data. There were no transfers of investments between the fair value hierarchy levels during the year. Based on information provided by the fund managers, the Proper Officers believe that whilst significant judgement is required in the valuation of Level 3 investments, the effect of stressing the assumptions to a range of reasonably possible alternatives would not result in a material change in the valuation at 31st March 2017.

The loan and receivable investment meets the definition of a hybrid instrument, comprising a debt instrument (“the host”) with a right to convert to preference shares at a future date. The debt instrument and preference shares provide a return of 6% per annum. At 31st March 2017 there is no difference between the fair value of the hybrid instrument and the host contract.

The Group made a significant judgement about the impairment of the loans and receivables financial asset as at 31st March 2017. To determine if the loans and receivables financial asset is impaired, the Group evaluates the duration and extent of its investment, and the financial health of and short-term business outlook of the investee (including factors such as industry performance and changes in government policies that are impacting the investee’s business) available to the Group at the end of the reporting period.

Several of the financial investments included above are foreign currency denominated and are translated into Sterling at the prevailing rate at the year-end. The table below analyses the sensitivity of the above investments to the denominated currency:

	31 st March 2016 £'000	31 st March 2017 £'000
US Dollar exchange rate +/- 10bpt	(2,135)/2,543	(678)/796

The maximum exposure to the credit risk at the reporting date is the carrying value of the debt securities classified as available for sale.

The carrying value of financial assets, including debt securities classified as available for sale and cash deposits, best represents the maximum exposure to counterparty risk at the reporting date.

12 Trade and other receivables

	Group 31 st March 2016 £'000	Duchy 31 st March 2016 £'000	Group 31 st March 2017 £'000	Duchy 31 st March 2017 £'000
Amounts falling due within one year:				
Trade receivables	4,417	4,211	4,079	3,923
Less provision for impairment of trade receivables	(193)	(193)	(164)	(164)
Prepayments and accrued income	3,912	2,980	6,848	5,675
Other receivables	260	260	–	–
	8,396	7,258	10,763	9,434
Amounts falling due after more than one year:				
Other receivables	6,300	6,300	3,700	3,700
Amounts due from Group subsidiaries	–	6,650	–	6,650
	6,300	12,950	3,700	10,350

The Group’s other receivables falling due after more than one year include £200,000 at 6% repayable 2018, and £3.5million at 6% repayable 2025.

Amounts due from the Group subsidiaries comprise of two loans to J V Energen LLP, classified as loans and receivables – £4.6million repayable in 2026, and £2.05million repayable at a date to be determined and at least 12 months from the balance sheet date, both at an interest rate of 8%. These loans are secured against the land and buildings of the company.

All receivables are denominated in Sterling.

As of 31st March 2017 trade receivables of £3,012,000 (2016: £3,579,000) were past due, but not impaired. The ageing analysis of these trade receivables is as follows:

	Group 31 st March 2016 £'000	Duchy 31 st March 2016 £'000	Group 31 st March 2017 £'000	Duchy 31 st March 2017 £'000
Under 3 months	2,477	2,477	2,422	2,266
3 to 12 months	705	705	356	356
Over 12 months	397	397	234	234
	3,579	3,579	3,012	2,856

As of 31st March 2017 trade receivables of £164,000 (2016: £193,000) were impaired and provided for. The impaired receivables mainly relate to tenants who are in financial difficulty.

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:

	Group 31 st March 2016 £'000	Duchy 31 st March 2016 £'000	Group 31 st March 2017 £'000	Duchy 31 st March 2017 £'000
At 1 st April	211	211	193	193
Provision for receivables impairment	58	58	46	46
Net receivables written off as uncollectable	(76)	(76)	(75)	(75)
At 31st March	193	193	164	164

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

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

The fair values of trade and other receivables are not considered to be significantly different from their carrying value.

13 Investment property assets held for sale – Group and the Duchy

	31 st March 2016 £'000	31 st March 2017 £'000
At 1 st April	9,814	12,918
Disposal	(5,691)	(5,369)
Capital improvements	827	428
Transfer to investment property	(681)	(50)
Transfer from investment property	6,622	16,978
Revaluation in year	2,027	1,719
At 31st March	12,918	26,624

At the year-end the Duchy was actively marketing properties for sale at the fair values stated above, and these are expected to be sold within 12 months of the balance sheet date. This strategy forms part of the long-term aim to continue to improve and rebalance the property portfolio.

14 Trade and other payables

	Group 31 st March 2016 £'000	Duchy 31 st March 2016 £'000	Group 31 st March 2017 £'000	Duchy 31 st March 2017 £'000
Amounts falling due within one year:				
Trade payables	7,916	7,718	7,701	7,370
Accruals	1,236	1,162	1,839	1,652
Social security and other taxes	848	848	825	825
Payments received on account	6,475	6,475	7,347	7,347
Rents paid in advance	3,938	3,938	4,136	4,136
Other payables	2,000	2,000	2,000	2,000
	22,413	22,141	23,848	23,330
Amounts falling due after more than one year:				
Payments received on account	10,684	10,684	10,506	10,506
	10,684	10,684	10,506	10,506

The fair values of trade and other payables are not considered to be significantly different from their carrying value.

15 Borrowings and derivative financial instruments – Group and the Duchy

Group	Less than 1 year £'000	Between 1 and 5 years £'000	Over 5 years £'000	Total £'000
At 31st March 2017				
Borrowings	–	40,000	60,000	100,000
Interest rate swaps – cash flow hedges (Level 2)	–	4,820	3,200	8,020

At 31st March 2016				
Borrowings	208	30,000	70,000	100,208
Interest rate swaps – cash flow hedges (Level 2)	–	1,239	7,136	8,375

Duchy	Less than 1 year £'000	Between 1 and 5 years £'000	Over 5 years £'000	Total £'000
At 31st March 2017				
Borrowings	–	40,000	60,000	100,000
Interest rate swaps – cash flow hedges (Level 2)	–	4,820	3,200	8,020

At 31st March 2016				
Borrowings	–	30,000	70,000	100,000
Interest rate swaps – cash flow hedges (Level 2)	–	1,239	7,136	8,375

The Duchy has three interest rate derivatives designated into cash flow hedge relationships on the loan facilities totalling £100million. The notional amount of the interest rate derivatives is £100million. As at 31st March 2017, a gain of £562,000 was recognised in other comprehensive income in the Capital Account Statement of Comprehensive Income, in respect of the effective cash flow hedge relationships. These are classified as Level 2 financial instruments measured at fair value on directly or indirectly observable inputs.

The bank loan of £40million is repayable in 2022; interest in the year is at a floating rate that has been fully swapped to a fixed rate of 4.31%. The bank loan of £30million is repayable in 2025; interest in the year is at a floating rate that has been fully swapped to a fixed rate of 3.17%. In July 2016, the bank loan of £30million repayable in 2019 was refinanced to mature in 2027; the loan has been fully swapped to a fixed rate of 2.64%. The fair values of borrowings are not considered to be significantly different from their carrying value.

16 Reconciliation of operating surplus to net cash inflow from operating activities

	Group Year ended 31 st March 2016 £'000	Duchy Year ended 31 st March 2016 £'000	Group Year ended 31 st March 2017 £'000	Duchy Year ended 31 st March 2017 £'000
Net surplus on the Revenue account	20,478	20,124	20,796	20,286
Net surplus on the Capital account	8,700	9,103	20,524	19,993
Adjusted for:				
Depreciation	762	407	849	495
Impairment of financial assets	2,500	2,500	1,300	1,300
Dividend income on available for sale assets	(3,499)	(3,499)	(2,801)	(2,801)
Net finance costs	2,799	2,184	3,235	2,664
Share of loss from associate and joint venture	1	–	1	–
Shortfall of pension charge over contributions	(198)	(198)	(457)	(457)
Net gain from fair value of investment property	(9,405)	(9,808)	(17,781)	(17,249)
Net gain from fair value of investment property held for sale	(2,027)	(2,027)	(1,719)	(1,719)
Net gain on property held for sale	(790)	(790)	(969)	(969)
Profit on disposal of investment property	(2,722)	(2,722)	(773)	(773)
Loss/(gain) on disposal of financial investments	2,417	2,417	(1,812)	(1,812)
(Increase)/decrease in inventories	(32)	67	(120)	31
Decrease/(increase) in trade receivables	1,706	1,703	(932)	(725)
(Decrease)/increase in trade payables	(2,998)	(2,925)	836	590
Net cash inflow from operating activities	17,692	16,536	20,177	18,854

17 Related party transactions

Two members of The Prince's Council are also trustees of The Duke of Cornwall's Benevolent Fund, to which the Duchy of Cornwall, on behalf of the Duke of Cornwall, pays surplus receipts of bona vacantia as detailed in note 18. There were no transactions with the trustees during the financial year and as at 31st March 2017 there was £nil (2016: £nil) remaining payable to the trustees.

Certain Duchy properties, including Highgrove House, are occupied by His Royal Highness The Prince of Wales and his office staff for living accommodation or commercial activities. These are let at open market values; the total value of annual rent charged amounted to £663,367 (2016: £650,175). As at 31st March 2017 there was £nil (2016: £4,287) remaining payable to the Duchy.

During the year the Duchy paid Mrs Annabel Elliot, The Duke of Cornwall's sister-in-law, in the normal course of business and on an arm's-length basis £24,045 (2016: £28,859) for fees and commission, and £27,752 (2016: £59,462) for the purchase of furniture, furnishings and retail stock for the Duchy of Cornwall holiday accommodation, Duchy office at Restormel and Penlyne Nursery. At 31st March 2017 there was £4,173 (2016: £9,425) remaining payable to Mrs Elliot.

Key management personnel are individuals who have the responsibility for planning, directing and controlling the activities of the Duchy. For the year ended 31st March 2017, the Duchy of Cornwall made the following payments to key management personnel: Short-term employee benefits (salary) £1,295,000 (2016: £1,178,000); Post-employment benefits (retirement benefit plan contribution) £363,000 (2016: £420,000); Benefits £94,000 (2016: £90,000); Total £1,752,000 (2016: £1,688,000).

Transactions with QMS (Poundbury) LLP, RP (Poundbury) LLP and J V Energen LLP are shown in notes 10 and 12.

During the year the Duchy received £571,000 of interest (2016: £615,000) from J V Energen LLP. In addition, the Duchy leased an area of land to a Partnership for which a rent of £98,725 (2016: £58,000) from J V Energen LLP was received.

18 Bona vacantia

During the year, His Royal Highness in right of his Duchy of Cornwall, received bona vacantia (being the estate of deceased intestates resident in Cornwall and dying without next of kin) of £498,000 (2016: £146,000) before allowing for ex gratia payments and other associated third-party costs of £95,000 (2016: £23,000). Surplus receipts of bona vacantia by His Royal Highness are paid over to The Duke of Cornwall's Benevolent Fund; £415,000 (2016: £185,000) was paid during the year. At 31st March 2017, the Duchy retained £133,000 (2016: £145,000) within creditors to meet potential future claims from individuals statutorily entitled to estates that had previously passed as bona vacantia to His Royal Highness. The Duchy of Cornwall makes no charge for administering bona vacantia matters.

Copies of The Duke of Cornwall's Benevolent Fund financial statements may be obtained from 10 Buckingham Gate, London, SW1E 6LA.

19 Capital commitments

At 31st March 2017 the Duchy had Capital commitments of £4,754,000 (2016: £8,721,000) in respect of development and property improvement works, and £3,459,000 (2016: £3,896,000) for the acquisition of financial investments.

20 Contingent liability

During the year to 31st March 2007 the Duchy sold an area of land subject to obtaining vacant possession. If vacant possession was not agreed between 2010 and 2017 it was possible for the purchaser of the land to require the Duchy to repurchase the land concerned at the original price received plus interest. Vacant possession was obtained in April 2017 so this liability will not crystallise.

21 Financial instruments – Group

	Note	Held at fair value £'000	Amortised cost £'000	31 st March 2016 £'000
Assets				
Financial assets	11	65,981	2,500	68,481
Trade and other receivables excluding prepayments and accrued income	12	–	14,614	14,614
Cash and cash equivalents		–	4,383	4,383
		65,981	21,497	87,478
Liabilities				
Trade and other payables excluding non-financial liabilities	14	–	(28,311)	(28,311)
Borrowings	15	–	(100,208)	(100,208)
Derivative financial instruments	15	(8,375)	–	(8,375)
		(8,375)	(128,519)	(136,894)

21 FINANCIAL INSTRUMENTS – GROUP (continued)

	Note	Held at fair value £'000	Amortised cost £'000	31 st March 2017 £'000
Assets				
Financial assets	11	65,080	1,200	66,280
Trade and other receivables excluding prepayments and accrued income	12	–	14,399	14,399
Cash and cash equivalents		–	4,095	4,095
		65,080	19,694	84,774
Liabilities				
Trade and other payables excluding non-financial liabilities	14	–	(29,600)	(29,600)
Borrowings	15	–	(100,000)	(100,000)
Derivative financial instruments	15	(8,020)	–	(8,020)
		(8,020)	(129,600)	(137,620)

21 Financial instruments – the Duchy

	Note	Held at fair value £'000	Amortised cost £'000	31 st March 2016 £'000
Assets				
Financial assets	11	65,981	2,500	68,481
Trade and other receivables excluding prepayments and accrued income	12	–	20,126	20,126
Cash and cash equivalents		–	4,048	4,048
		65,981	26,674	92,655
Liabilities				
Trade and other payables excluding non-financial liabilities	14	–	(28,039)	(28,039)
Borrowings	15	–	(100,000)	(100,000)
Derivative financial instruments	15	(8,375)	–	(8,375)
		(8,375)	(128,039)	(136,414)

	Note	Held at fair value £'000	Amortised cost £'000	31 st March 2017 £'000
Assets				
Financial assets	11	65,080	1,200	66,280
Trade and other receivables excluding prepayments and accrued income	12	–	19,720	19,720
Cash and cash equivalents		–	3,603	3,603
		65,080	24,523	89,603
Liabilities				
Trade and other payables excluding non-financial liabilities	14	–	(29,082)	(29,082)
Borrowings	15	–	(100,000)	(100,000)
Derivative financial instruments	15	(8,020)	–	(8,020)
		(8,020)	(129,082)	(137,102)

22 Financial risk management

A review of the Group's financial risks is set out in the Governance section on pages 34 to 43.

Market risk

All borrowings at floating rates are fully hedged by swap agreements. Sensitivity to currency exchange movements are outlined in note 11. The Duchy has a diverse financial investment portfolio predominantly invested in funds so as to minimise risk.

Liquidity risk

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

	Less than 1 year £'000	2–5 years £'000	More than 5 years £'000	Total £'000
Borrowings	–	40,000	60,000	100,000
Net interest payable on swap	3,452	13,664	7,717	24,833
Trade and other payables	11,540	–	–	11,540
At 31st March 2017	14,992	53,664	67,717	136,373
At 31 st March 2016	15,890	42,629	75,781	134,300

Credit risk

The Duchy is exposed to credit risk in relation to its tenants and financial institutions. Credit risk in respect of the Duchy's tenants is reviewed on a regular basis and appropriate action is taken where necessary. For new lettings the Duchy undertakes credit checks and holds tenant deposits where appropriate. For banks and financial institutions, the Duchy's appointed investment consultants assess the credit quality of the organisation, taking into account its financial position, past performance experience and other relevant factors.

Capital management

Under the 1337 Charter, The Prince of Wales is not entitled to the proceeds or profit from the sale of capital assets and only receives the annual income that the assets generate. The Duchy's financial objective in managing capital assets is to continue to improve the quality of the estate whilst providing an income for future beneficiaries.

The Duchy continually monitors the capital asset weightings, particularly from a diversification and cash flow perspective. Capital cash flow projections are regularly reviewed and updated to ensure that funding is available to meet both liabilities when due and to pursue investment opportunities when considered appropriate. This also ensures that the covenants in relation to the bank loan facilities are adhered to.

Treasury consents

Treasury consents under Section 7 of the Duchy of Cornwall Management Act 1982:

- authority for a settlement payment of £500,000;
- authority for extending a £30million facility agreement with Coutts Bank plc;
- authority for a £6million overdraft facility with Coutts Bank plc; and
- authority for an option to sell land for £120,000.

Treasury consents under Section 11 of the Duchy of Cornwall Management Act 1863:

- authority for expenditure on property improvements for £550,000;
- authority for expenditure on property improvements for £680,000;
- authority for the sale of land for £900,000;
- authority for the sale of property for £1.34million;
- authority for the sale of land and property for £1.4million; and
- authority for the sale of land and property for £2.75million.

Alastair Martin
Secretary and Keeper of the Records
7th June 2017

Appendix

Accounts Direction given by HM Treasury

- 1 The Duchy of Cornwall shall prepare Accounts for the financial year ended 31st March 2017 and subsequent financial years comprising:
 - a Report for the year, including a Strategic Report, a Proper Officers' Report, a Statement of the Proper Officers' Responsibilities, and a Governance Statement;
 - a Revenue Account Statement of Comprehensive Income and a Capital Account Statement of Comprehensive Income;
 - a balance sheet;
 - a Statement of Changes in Capital and Reserves; 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 Revenue Account Statement of Comprehensive Income, Capital Account Statement of Comprehensive Income, Statement of Changes in Capital and Reserves, Cash Flow Statement for the financial year and the balance sheet 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 28th May 2015. It shall be reproduced as an appendix to the Accounts.

Richard Brown
Treasury Officer of Accounts
8th May 2017

Accounting and disclosure requirements

Companies Act 2006

- 1 The disclosure exemptions permitted by the CA shall not apply to the Duchy of Cornwall 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 Proper Officers' Report for the year, which shall be signed and dated by the Secretary 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 The statements of comprehensive income shall be prepared in accordance with International Accounting Standard (IAS) 1.
- 5 The balance sheet shall be prepared in accordance with IAS 1, separating the classification of the current and non-current assets, and current and non-current liabilities on the face of the balance sheet. The balance sheet shall be signed by the Secretary or other Proper Officer.
- 6 The Duchy is not required to provide the historical cost information described in paragraph 34(3) of Schedule 1 to the SI20081410.
- 7 The Duchy is not required to comply with the requirement specified in paragraph 35 of Schedule 1 to 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 for the year 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;
 - list Treasury consents under section 7 of the Duchy of Cornwall Management Act 1982 granted in that year; and
 - 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:
 - disclose the names of the external valuers and the qualifications of the internal valuers;
 - (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; and
 - provide details of the remuneration package of each member of The Prince's Council, together with a note of the pension contributions made in respect of Council members.
- 11 A formal valuation of the Pension Scheme was undertaken in 2016 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 trustees. The pension reserve required by IAS 19 shall be a separate non-distributable reserve within the balance sheet.

APPENDIX (continued)

Carbon report

The Duchy of Cornwall is fully committed to understanding and reducing its carbon footprint. It has calculated and published carbon footprint data for the last 12 years.

Carbon performance summary

We have achieved a 53% decrease in overall carbon dioxide emissions since the baseline year (representing 231 tonnes carbon dioxide equivalent in 2016/17).

The rate of reduction has flattened over recent years, with a small increase this year compared to last year. Further reductions

are proving harder to achieve. All remaining emissions are offset by specific additional tree planting, with carbon credits being externally verified, and excess credits being sold to sister organisations.

Using the baseline year of 1990, as typically used in Kyoto protocol targets, a 25% reduction was met by 2008/09 and a subsequent reduction target of 40% by 2012 was also achieved. A new target has been developed as part of our key performance indicators – see page 17: we aim to reduce GHG emissions by 60% against baseline by 2020.

Carbon Statement¹

	Baseline ² tCO ₂	2012/13 tCO ₂	2013/14 tCO ₂	2014/15 tCO ₂	2015/16 ⁵ tCO ₂	2016/17 tCO ₂
OPERATIONAL MANAGEMENT Offices, in-hand property						
Travel – business	132	86	95	113	101	96
Travel – commuting	52	62	63	64	69	64
Energy used in properties	225	39	30	26	16	29
Sub-total	409	187	187	203	185	189
TRADING ACTIVITIES Holiday cottages, nurseries						
Travel – business	9	6	6	6	4	7
Travel – commuting	17	22	18	15	9	17
Energy used in properties	60	17	17	9	18	18
Sub-total	86	45	42	31	31	42
Total emissions	495	232	229	234	216	231
Total travel-related emissions	210	176	181	199	181	184
Total energy used in properties	285	56	47	35	33	47
Total emissions	495	232	229	234	216	231
Reduction on baseline		53%	54%	53%	56%	53%
ENERGY USED IN PROPERTIES						
Gas – gross	54	89	80	63	58	73
Emissions reduction ³	–	-89	-80	-63	-58	-73
Gas – net	54	0	0	0	0	0
Electricity – gross	156	278	292	299	323	294
Emissions reduction ⁴	–	-258	-265	-282	-309	-266
Electricity – net	156	19	27	17	14	28
Oil – gross	75	37	20	17	19	19
Total	285	56	47	35	33	47

1 This Carbon Statement presents the carbon emission data from the activities and assets under the ownership and direct management of the Duchy, and from the commuting of Duchy staff. It has been prepared in accordance with the Duchy's Carbon Reporting Policy set out below. This Policy was developed in 2008/09 to provide a formal basis for the preparation of the Carbon Statement.

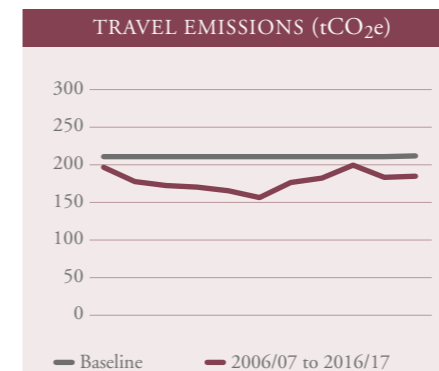
2 PricewaterhouseCoopers LLP provided assurance over the Duchy's 2008/09 carbon emissions data. The data for the baseline and all other years has not been subject to assurance. Assurance will be obtained in future either when there is a significant change in the assets and activities of the Duchy, or in general carbon reporting practice.

3 Gas emissions reductions are achieved through purchases via the Green Gas Certification Scheme of biomethane credits from the Rainbarrow Farm AD and Biomethane Plant.

4 Electricity emissions reductions are achieved through the purchase of renewable electricity generated from renewable sources backed by Renewable Energy Guarantee of Origin (REGO) certificates.

5 The 2015/16 figure published last year was 214 tonnes. This has been revised up to 216 tonnes in light of new information.

Carbon performance summary



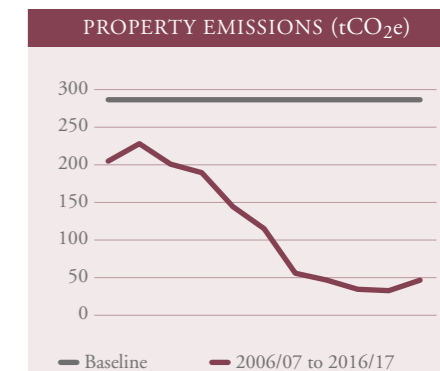
Decreased by 13% compared to baseline.

Travel emissions at first declined, mainly due to the purchase of a much more fuel-efficient boat for St Mary's harbour on the Isles of Scilly, which is used both as a pilot boat and for inter-island travel. In recent years travel emissions started increasing because travel to the Isles of Scilly has been undertaken using the longer-journey fixed wing aircraft, the helicopter public transport service from Penzance having ceased.



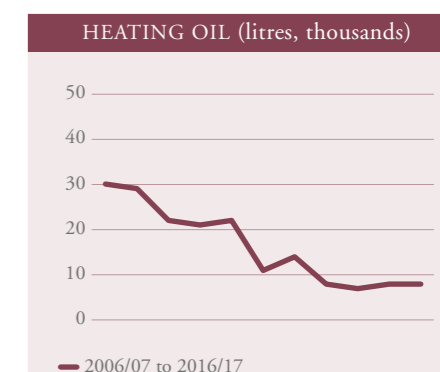
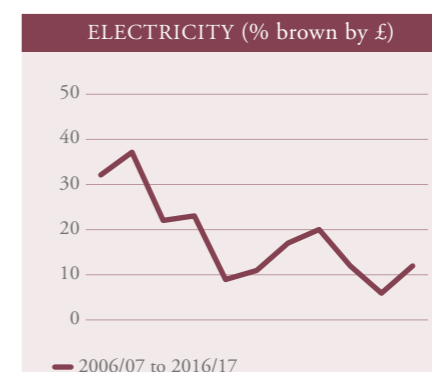
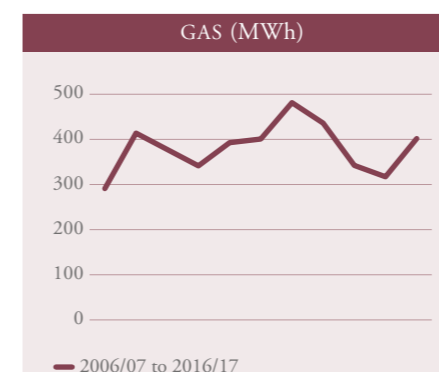
Decreased by 28% compared to baseline.

Whilst there has been a very large reduction in emissions from properties, it is proving harder to reduce emissions from travel. The average gCO₂/km of cars driven by office-based staff has fallen from 167 in 09/10 to 136 this year, but the number of business miles driven is roughly static, and the total staff commute has risen, as more staff are employed and some have moved further from their place of work.



Decreased by 84% compared to baseline.

Key factors include the switch to renewable fuels and a programme of works to convert offices to renewable heating systems or to upgrade existing systems. All offices and trading businesses purchase only electricity generated from renewable sources backed by Renewable Energy Guarantee of Origin (REGOs) certificates, and purchase gas backed by Renewable Gas Guarantees of Origin registered through the Green Gas Certification Scheme (GGCS). Offices at Princetown and Restormel are heated by biomass, and Hereford by ground source.



The volume of gas consumed continues to vary. The proportion of non-renewable electricity used is very much reduced since baseline, but has risen slightly this year as some previously let properties with brown supplies came back in hand. There has been a significant drop in heating oil use over the years, and we are now just left with a couple of holiday let cottages that use heating oil. All offices are either on mains gas or biomass systems.

The Duchy of Cornwall estates

Surface Area Report 31st March 2017

The Duchy of Cornwall is a landed estate of 53,265.6 hectares.

The extent and distribution of the major land holdings at 31st March 2017 were as follows:

	Hectares
Devon	28,419.4
Cornwall	7,691.4
Hereford	5,371.7
Somerset	5,282.4
Isles of Scilly	1,604.5
Dorset	1,330.8
Wiltshire	1,253.0
Gloucestershire	657.4
Shropshire	581.5
Kent	519.5
Nottinghamshire	287.6
Oxfordshire	120.4
Carmarthenshire	84.0
Vale of Glamorgan	19.6
Greater London	15.6
Buckinghamshire	15.4
Hertfordshire	6.0
Norfolk	2.2
Berkshire	1.5
Cheshire	0.7
Leicestershire	0.5
Hampshire	0.4
Middlesex	0.1
Total	53,265.6



Annual Report and Accounts

Year ended 31st March 2017

www.duchyofcornwall.org

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