DUCHY *of* CORNWALL

Sustainable stewardship

INTEGRATED ANNUAL REPORT 2019

Restormel Castle, Cornwall

DUCHY *of* CORNWALL

INTEGRATED ANNUAL REPORT 2019

For the year ended 31st March 2019

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

ANY QUERIES SHOULD BE SENT TO: LONDON@DUCHYOFCORNWALL.ORG

Welcome

This Integrated Annual Report summarises activity on the Duchy of Cornwall estate for the year ended 31st March 2019. It aims to describe how decisions made in the course of meeting our commercial responsibilities affect local communities, the economy and the natural environment.

Contents

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.

History and constitution

The Duchy of Cornwall was created in 1337 by Edward III to provide an income for his son, Prince Edward.

The estate is governed by the original Charter and Duchy of Cornwall Management Acts 1863 to 1982.

The Duke of Cornwall has no access to the Duchy's capital value and pays income tax on the annual revenue surplus that he receives from the Duchy.

STRATEGIC REPORT

Introduction

Our purpose and values enable us to be focused on generating positive financial, social and environmental impacts.

Our purpose

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.

Our values

Our purpose is supported by our values and the loyalty, passion and commitment of our people.

Our strategic objectives

We are guided in all that we do by our strategic objectives.

22 *Strategic objectives*

Our activities

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

14 *Our business model*

Our performance

We measure our performance through key performance indicators.

16 *Key performance indicators*

Integrated thinking

We believe integrated thinking is fundamental to sustainable development and, as such, it has always been part of how the estate is managed. Our ambition is to systematically apply integrated thinking across our activities to optimise financial results and transparency, add value to communities and the natural environment, and enhance the estate's living legacy.

Value creation highlights

We aim to create long-term value for all our stakeholders. Here are some of the key highlights.

Distributable Surplus

£21.6m

in 2018/19, down 0.5%

22 *Key performance indicators*

Net Assets

£931m

Investment property valuation, up £10m. 0.5% capital return

48 *Group balance sheet*

Environmental impact

60%

reduction in direct greenhouse gas (GHG) emissions compared to baseline

30 *Key performance indicators*

Renewable energy installed capacity

2.9MW

of installed capacity in solar PV, biomass boilers, heat pumps and a hydro-electric scheme, at a cost of £3.9m

30 *Key performance indicators*

Quality of customer service

81%

of tenants satisfied or very satisfied with customer service

26 *Key performance indicators*

New farm tenancies

21yrs

Average length of Farm Business Tenancies

27 *Key performance indicators*

Dewsall Court Farm, Herefordshire

Highlights of the Year

Through our business model and under the leadership of The Duke of Cornwall, we approach our activities with commercial realism and social and environmental responsibility.

2018

April

Bloomin Amazing
The Anaerobic Digester and Biomethane plant at Rainbarrow Farm finishes its best financial year to date, with profits up 170% on previous years. Bloomin Amazing, the soil conditioner made from the renewable by-product of the anaerobic process, is ranked at number seven in the *Garden Trade News* Growing Media chart.

May

Awards of Excellence in forestry
The Duchy of Cornwall is awarded First Prize in two categories at the Excellence in Forestry Awards. Aconbury Wood and Wallbrooks Wood won The Duke of Cornwall's Award for multi-purpose management while Timberline Wood took home the Silviculture Award.

The Action Oak initiative supported by the Duchy of Cornwall has its public launch at the Chelsea Flower Show with a Gold Medal-winning stand in the Flower Pavilion's Discovery Area.


Aconbury Wood

June

Well-being awareness
Inspired by The Duke and Duchess of Cambridge and The Duke of Sussex's Heads Together campaign, the Duchy's Staff Consultative Committee launch mental health and well-being awareness sessions to help Duchy of Cornwall employees learn how to best look after their own mental well-being and recognise if someone else may be feeling unwell.

July

70th birthday celebration
Duchy staff and tenants gather at Highgrove to mark the very special occasion of The Duke of Cornwall's 70th birthday in November.

Annual visit to the South West
The Duke and Duchess of Cornwall undertake their annual visit to the South West, which includes celebrating the Fowey Festival, attending an Ocean Plastic Solutions Day at Wheal Kitty in St Agnes and a visit to St Mary's and St Martin's on the Isles of Scilly.


The Prince of Wales and The Duchess of Cornwall on the Isles of Scilly

August

Natural Capitals
As part of the ongoing Natural Capitals Project, Jeremy Clitherow is hired on a two-year contract from Natural England to act as Natural Capitals Project Advisor, assisting with the farm audit work.

September

New homes completed
On the Bletchingdon Estate development, the five houses that make up Dell Terrace are completed and two are sold.


The Prince of Wales views Dell Terrace

October

Nansledan's first small business
The first commercial business opens up on the Nansledan estate near Newquay. Run by Alex Eley and her aunt Judith Eley, the café serves locally produced food and drink with a sustainable ethos, striving to be plastic free and energy efficient. Six businesses started operating at Nansledan by the end of the year.

Alex and Judith Eley of the Little Cornish Pantry in Nansledan

November

A very special occasion
The Duke of Cornwall celebrates his 70th birthday on the 14th of the month.

Updated living space
Renovations at Hill Barn Farmhouse in Hereford are successfully completed with a brand-new extension, giving its residents, the Hughes family, an expanded and updated living space.


The Prince of Wales visits the Hughes Family in Hereford

Awards for Tregunnel Hill
Tregunnel Hill won major plaudits, bringing the total to four in the year: INTBAU Excellence in Urban Design award, a UK Property 5-star award, a Congress for the New Urbanism Charter award and a 'highly commended' in the Planning Awards. This is a four-hectare Duchy of Cornwall development of 174 homes and 571 m^2 commercial space in Newquay, completed in 2016.

Poundbury visit
The Duke of Cornwall visits Poundbury, the Duchy's urban extension to Dorchester.

December

30th anniversary
The Dartmoor Pony Moorland Scheme, which is supported by the Duchy of Cornwall, celebrates its 30th anniversary and is awarded the Dartmoor Pony Society's Glenda Spooner Award for outstanding contribution towards the preservation of the pedigree Dartmoor pony.

2019

January

Supported living development
The Duke of Cornwall opens Yarlington Melrose Court, a new supported living housing development for elderly people in the area. His Royal Highness attends a tea party with residents to celebrate the official opening.

February

Visit to the Bletchingdon Estate
His Royal Highness visits the Bletchingdon Estate development built on Duchy land in Oxfordshire. The Prince meets pupils at Bletchingdon Parochial Church of England School, as well as some of the site's first homeowners.


The Prince of Wales visits Bletchingdon Parochial Church of England School

Built with Duchy timber
With construction complete at Shenmore Lodge in Hereford, The Duke of Cornwall officially opens the building and meets with craftsmen who helped finish the project. The Lodge was built on the edge of Duchy woodlands with Duchy timber from the nearby woods.

March

Nansledan tours
Communities Secretary, The Rt Honourable James Brokenshire, tours the Nansledan development in Cornwall with the Duchy's Estates Director Ben Murphy, learning about how the Duchy is working with local people to create a thriving mixed-use community with employment integrated with homes.

DUCHY OF CORNWALL *Integrated Annual Report 2019*

TOUR OF THE DUCHY ESTATE

Our diverse portfolio

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

52,760
hectares of land

2,360
hectares of woodland

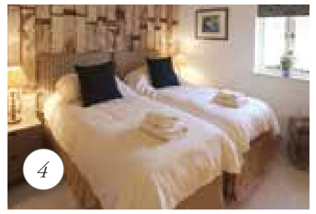
£53m
Development land

£291m
Commercial property

Isles of Scilly
The Isles of Scilly have been part of the Duchy of Cornwall since the 14th century.

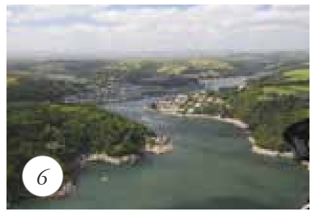
Newquay
The Duchy's major development project in Cornwall, Nansledan.

Ancient monuments
Tintagel Castle is one of 17 major Duchy ancient monuments. Others include Restormel, Launceston and Trematon Castles.

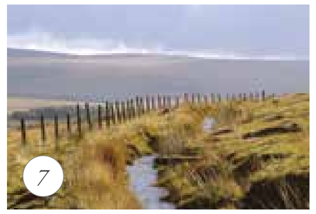


Duchy of Cornwall holiday cottages
We have a small number of period properties available as holiday cottages.

Duchy of Cornwall Nursery
The nursery, at Lostwithiel, opened its doors to the public in 1975 and includes a renowned café.



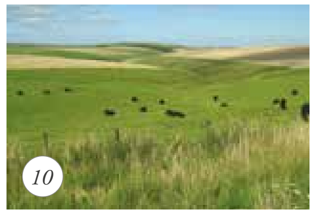
Coastal and inland waters
Including the Dart, Salcombe and Kingsbridge, Avon, Tamar, Looe, Helford and Camel estuaries and coastal foreshore around Cornwall and the Isles of Scilly.



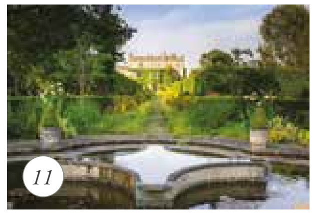
Dartmoor and Princetown
Most of the Duchy's 27,200 hectares on Dartmoor has been part of the estate since the 14th century.

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

Poundbury
An urban extension to Dorchester, Poundbury is built on principles of architecture and urban planning advocated by The Prince of Wales.



Eastern District estates
The Eastern District includes land in Gloucestershire, Somerset, Wiltshire and Dorset.

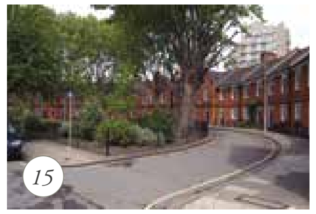


Highgrove House and Home Farm
Highgrove is the family home of Their Royal Highnesses. The nearby 425-hectare Home Farm is entirely organic.

Hereford estates
Incorporating the Guy's estate, purchased in 2000, and the Cradley estate.

Commercial portfolio
Standard investment properties, the majority located in Milton Keynes, London, Reading and Cornwall.

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



London
Mainly Kennington Estate assets, including 16 flats and 23 houses, various commercial buildings, The Oval cricket ground and a number of long leases.

Kent estates
Purchased in 2000 and now including over 350 hectares of farmland and rural residential property.

ALASTAIR MARTIN SECRETARY AND KEEPER OF THE RECORDS

From the Keeper of the Records

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

Achieving a balance between financial results, protecting the natural environment on which we all depend and supporting our communities has been at the heart of the Duchy ethos for many years.

We believe this 2018/19 Integrated Annual Report, our third fully integrated report, complies with the Framework of the International Integrated Reporting Council (IIRC). This framework helps us explain how we create value in the short, medium and long term, for a range of stakeholders. This year we have undertaken a thorough review of what matters to these stakeholders. The results of this work are described on pages 12–13 and are being incorporated into our strategy, objectives and governance.

Examples of how we are progressing on our strategic objectives are shown later in this report, grouped around each objective. I was particularly pleased to see how we are performing with community support and engagement (page 26). Feedback from tenants shows our customer service is rated very highly. We continue to be well ahead of our target of creating at least one new job for every house sold at our major development sites. Our Farm Business Tenancies for equipped farms are 21 years long on average, well in excess of industry standards, giving our tenants the long-term security they need to grow successful enterprises and put down roots in their communities.

The Prince of Wales again undertook a large number of public and private visits across the estate during the year. A particular highlight for me was the triennial visit of Their Royal Highnesses to the Isles of Scilly in July. On a visit to some of the small businesses on St Martin's, we learned about the provenance of Adam's Fish and Chip Shop's freshly caught fish and home-grown potatoes, visited the post office and stores, tearooms, art gallery, shoe shop, island hall, doctor's surgery and emergency services building, and Scilly Flowers. The Prince of Wales was particularly interested in the Smart Islands Partnership Programme, where the Duchy, the local council and many other partners are trying to address some of the Isles of Scilly's utility and infrastructure needs in an affordable and sustainable way. Their Royal Highnesses met many, perhaps most, of this vibrant island community which has been part of the estate since the Duchy was established in 1337.

In previous years, we have undertaken very useful surveys of residential and commercial tenants. This year we completed this process by seeking the views of our agricultural tenants across all districts. Agricultural property, which forms the heart of the traditional landed estate, ranges from small flower farms on the Isles of Scilly, to traditional dairy farms in Devon and Somerset, to large arable enterprises in Herefordshire. Many have diversified business streams, such as farm shops or bed and breakfasts. I was particularly pleased to see that, as with previous surveys, over 90% of tenants either agreed or strongly agreed that the Duchy had friendly and approachable staff. Overall satisfaction ratings were high although we will reflect on how we can improve on our perceived deficiencies such as being quicker in completing repairs.

Major investment in the existing estate has continued this year, along with the annual round of overhauls and repairs. Significant projects include an extension to a small farmhouse to support the new tenants and their growing family, a substantial renovation on St Agnes to upgrade a much-needed home on the island, a new farmstead in Cornwall, works to listed farm barns and the construction, using Duchy timber, of a new community facility in rural Herefordshire.

There has been significant progress at our major development sites at Poundbury and Nansledan. This year has also seen the substantial completion of the smaller community project at Bletchingdon in Oxfordshire, which includes a school, community hall and affordable housing (see our cover photograph and page 27).

There were no material acquisitions during the year. Two farms in Kent, part of an estate purchased in 2000, were sold during the year, continuing the programme of disposals from this off-lying area.

The Prince's Council is drawn from recognised leaders in agriculture, commercial property, estate management, investment management, law and finance. There were no changes to membership during the year. Along with HRH The Prince of Wales, the Council provides vital oversight, governance and guidance, and I remain very grateful for all it does for the Duchy. For example, this year, as in previous years, Lady Arran and Mark Thomas have given a great deal of time meeting potential candidates for farms which the Duchy has been letting (see page 37 for more on this example of governance in action).

During the year, following discussions between members of The Prince's Council, The Prince of Wales and The Duke of Cambridge, we continued the restructuring of our loan portfolio. Taking advantage of historically low interest rates, we reissued debt via fixed-rate loan notes of between 40 and 50 years, achieving a very competitive rate. This secures our modest gearing and allows us to continue to take long-term decisions in the best interests of all stakeholders. The interest cost saving will underpin Revenue Account surplus growth next year.

We continue to enhance disclosure around our key performance indicators. This year we have developed some indicators that focus on impact rather than input. You can read more on page 16. The significant growth in the Revenue Account distributable surplus that was achieved last year – up £1million to £21.7million – resulted from a number of one-off factors that we knew would not be repeated. Last year I said that there would be little if any growth this year, and this has indeed been the case: the surplus, at £21.6million, is in line with our budget. We expect a return to revenue surplus growth in 2019/20.

We continue to look further forward with a rolling five-year forecast and are acutely aware that even a modest growth in the Revenue Account surplus is dependent on the careful reinvestment of capital cash flows arising from development sales. By and large, the existing portfolio is fully rented and there is little room for organic growth.

Having celebrated His Royal Highness's 70th birthday in 2018, this year we will be marking 50 years since HRH assumed his position as Chairman of The Prince's Council. Thank you to everyone who has worked so hard to ensure another successful year.

Alastair Martin
Secretary and Keeper of the Records

The contents of the Strategic Report are signed on behalf of the Proper Officers by Alastair Martin, Secretary and Keeper of the Records, 6th June 2019

EXTERNAL CONTEXT

Factors influencing value creation

A range of external factors affect the Duchy's ability to create long-term value. We monitor these issues and adapt our approach in response.

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

The issue

Uncertainty resulting from the UK's decision to leave the EU makes planning and investment decisions more complex, with future circumstances liable to change. In our recent survey, this was the area of most concern to agricultural tenants.

The impact

The uncertainty around the UK's medium-term trade position and farming subsidies is impacting on the farming sector and the rural economy, and may affect rental and land values. Removing the influences of the Common Agricultural Policy could increase the emphasis on output and reduce the value placed on the natural environment. Proposals for UK subsidy regimes to focus on protecting the natural environment might address this risk. The funding of heritage and building projects could be at risk.

Our response

Until clarity comes, it is hard to define a response or to understand the longer-term impact. We will continue with our measured programme of rationalisation – consolidating our rural property assets, supporting farm diversification and enhancing the physical quality of our property. Our detailed project to assess natural capitals across the estate (see page 30) will underpin our response.

Shortage of and affordability of homes

The issue

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

The impact

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]

Our response

We have always responded to local community need for homes by making land available and we will continue to do so. We believe we have a robust consultation process and will continue to work to meet market demand and government policy. To date, 1,974 homes have been built at Poundbury and Nansledan, as well as at other smaller sites.

[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

Climate crisis

The issue

Weather plays a vital role in farming. It is predicted that "within the next decades, the climate crisis is likely to have severe effects on UK agriculture. Increased numbers of 'extreme weather 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]

The impact

The most likely impacts on the Duchy estate will be localised flooding, droughts and soil erosion.

Variability in weather patterns affects our tenants' profitability and viability, and could mean that natural resources are depleted.

Our response

We work to build awareness among tenants and staff, influence what happens on our land, and design strategies to lessen the impacts of the climate crisis.

Our new project to assess natural capitals (see page 30) looks at these issues in a detailed way for each farm and estate, and at a landscape level.

Work has been undertaken with Cranfield University to manage water and soil problems on Duchy estate land, including workshops for tenants and industry advisers.

Biodiversity and biosecurity

The issue

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. And the recent IPBES Report[5] found an unprecedented decline in biodiversity, with extinction rates accelerating and one million species under threat.

The impact

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 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.

Our response

We are part-way through our major new project to assess natural capitals across the estate (see page 30). New farm lettings have, at their core, a respect for biodiversity (see page 28).

[3] researchbriefings.files.parliament.uk/documents/SN03763/SN03763.pdf
[4] stockholmresilience.org/research/planetary-boundaries.html
[5] The Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES) www.ipbes.net

How we create and share value: our business model

Through our business model and under the leadership of The Duke of Cornwall, we approach our activities with commercial realism and social and environmental responsibility.

We rely on resources and relationships to create value

Understanding how we depend and impact on our inputs enables us to be efficient and responsible in the way we use and enhance them in the long term.

Financial

The estate's property assets, financial investments, loans and cash

Manufactured

Mainly buildings – some very old, some newly constructed – and renewable energy installations

Natural

As an historic estate of 53,000 hectares, natural capital is a major resource

People

Our people's skills, capabilities, values and commitment, including our employees and Council and Committee members

Community

Our community relationships that support the effective management of the estate

Intellectual

The intellect, diversity and long-term service of our people, tenants and HRH as The Duke of Cornwall

We always consider the most important issues for our stakeholders

Understanding what matters most to our stakeholders and which issues have the most material impact on our ability to create value helps us to manage risks and maximise opportunities.

Being mindful of our reputation and how we communicate

Understanding our long-term impact on the climate

Knowing our impact on natural capital such as soil, air and water

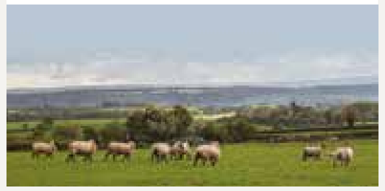
Being aware of the potential impacts of political change and uncertainty

Recognising the need to build a diverse and inclusive workforce

And are guided by our strategic objectives

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

while maintaining the quality and integrity of the estate

Engage with and actively support communities

by listening and responding to local needs and priorities, and by promoting economic and social well-being

Cherish, protect and enhance land and property

to maintain the estate for future generations

Improve environmental outcomes

by working with farmers and other partners, and reducing the impact of the Duchy's in-house operations

To ensure we create long-term value for them

Through our approach and activities, we generate positive impacts for all stakeholders, balancing environmental, social and economic needs.

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

46 *Our financial statements*

Enhanced natural capital – by supporting sustainable farming and rural communities

30 *How we are reducing our environmental impact*

Stronger communities – by stimulating local prosperity and supporting rural infrastructure

26 *How we are supporting communities*

How we create and share value: our strategic objectives

This year, for conciseness and ease, we have consolidated our previous two environmental objectives. We have kept all KPIs.

Provide income

Strategic objective: *Provide income* to support the public, charitable and personal activities of The Duke of Cornwall and his immediate family

How it is measured

KPI: Annualised growth in distributable revenue surplus

Our progress

Income provided to The Duke of Cornwall this year is, as anticipated, marginally down on last year – there were a number of one-offs in 2017/18. Next year should see growth in line with inflation, and we expect to reach our target of an average of 2.6% annual growth over the period 2015 to 2020.

Future focus

Uncertainties in the farming sector (see External context, page 12) mean that future growth in income is difficult to predict. The existing portfolio, both rural and commercial, is generally fully rented. Strategic reinvestment of surplus capital will be required to drive real increases.

22 *Learn more*

Generate capital and rebalance capital assets

Strategic objective: *Generate capital and rebalance capital assets* while maintaining the quality and integrity of the estate

How it is measured

KPI: Capital cash flow

KPI: Maintain a cohesive, quality, core property portfolio

Our progress

Capital cash flow from the property portfolio was in deficit again this year, as sales of development land have taken longer to come to market than hoped. The restructuring of our borrowings has meant that capital cash availability is no longer a risk issue (see risk heat map on page 21).

Future focus

Disposals will continue to focus on off-lying and poorer quality land, and on releasing the substantial investment in property at the Duchy development at Poundbury. No material purchases are planned, but we continue to look for opportunities to diversify the portfolio.

24 *Learn more*

Engage with and actively support communities

Strategic objective: *Engage with and actively support communities* by listening and responding to local needs and priorities, and by promoting economic and social well-being

How it is measured

KPI: Jobs created at urban extension projects

KPI: Tenant perception

KPI: Length of Farm Business Tenancies (FBTs) for equipped holdings

KPI: Community engagement on major development projects

Our progress

The long-term nature of the estate means we prize the long-term relationships we develop with our tenants and communities. We continue to let farms on longer-term tenancies, put effort into job creation at our development sites and respond to our tenants' feedback.

Future focus

We have now completed the cycle of tenant consultations and are working on responding to the issues raised. All major development projects include substantive engagement events. Over the next year we will be working on the issues arising from the recent materiality review.

26 *Learn more*

Cherish, protect and enhance land and property

Strategic objective: *Cherish, protect and enhance land and property* to maintain the estate for future generations

How it is measured

KPI: Quality homes standard

KPI: Safe buildings and places

KPI: Tenant satisfaction

KPI: The proportion of land that is covered by a new Natural Resource Management Plan

Our progress

Improved key performance indicators are now in place to capture the outcome of the investment we make to protect and enhance the estate. We have made real progress this year in determining what data will be needed. And we now have baseline results on tenants' satisfaction with their properties.

Future focus

To support this objective we have begun an ambitious project to assess natural capitals across the estate. Already, 24 management plans have been completed. This coming year we will also finish collating data on the quality of our homes and workplaces to ensure the standard of property improves over time.

28 *Learn more*

Improve environmental outcomes

Strategic objective: *Improve environmental outcomes* by working with farmers and other partners, and reducing the impact of the Duchy's in-house operations

How it is measured

KPI: Renewable energy installed capacity and projects facilitated

KPI: Natural capital assets

KPI: Direct greenhouse gas (GHG) emissions

Our progress

Working with our tenants to improve environmental outcomes will be achieved through our Natural Capitals Project, which has gained momentum during the year. New farm lettings specifically address environmental issues.

We have also increased the installed renewable energy capacity across the estate and further reduced the carbon footprint of our in-house operations.

Future focus

We plan to complete a further 80 natural capital assessments in 2019/20.

Direct GHG emissions are down 60% on baseline, but we still need to do more to address emissions from travel by Duchy staff.

A project to capture CO_2 is planned for the coming year, with a view to producing 'bio-CO_2' for the food and drinks sector from a renewable energy plant.

30 *Learn more*

MATERIAL ISSUES

Understanding what matters most

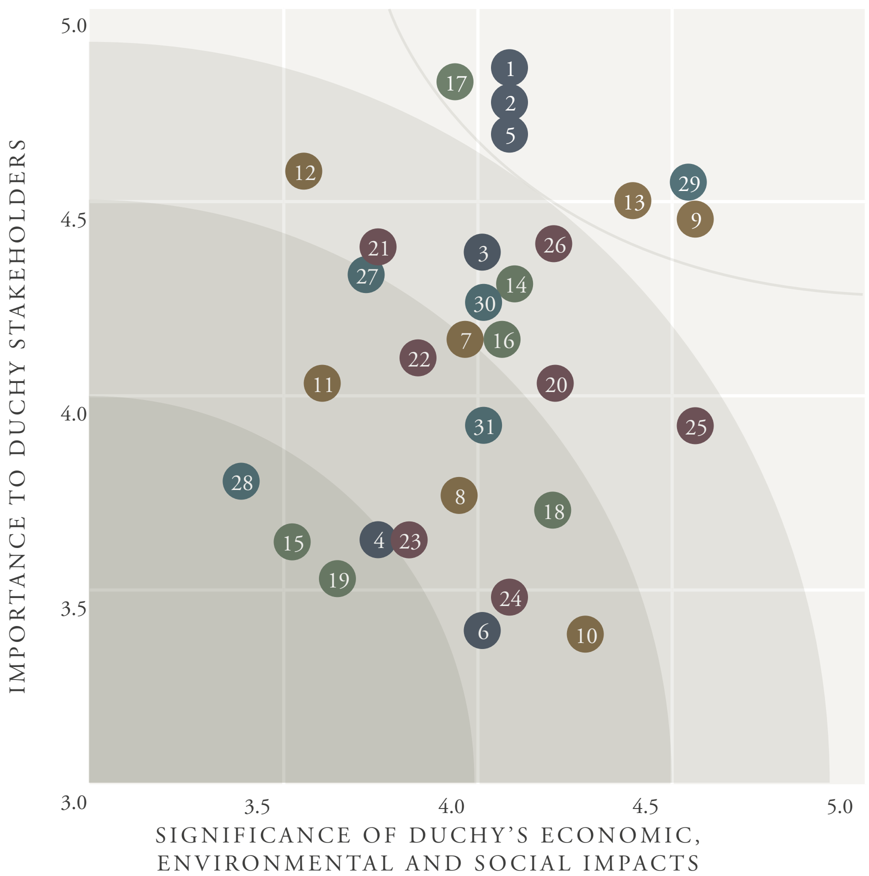
In 2019 we undertook a materiality review to understand the issues that have the most significant impact on our ability to create long-term value for stakeholders.

In determining these issues, we considered how important they were to stakeholders and how significant they were in terms of the Duchy's economic, environmental and social impacts. The results of the review will help to inform the Duchy's strategy and governance. Our most material issues are shown below.

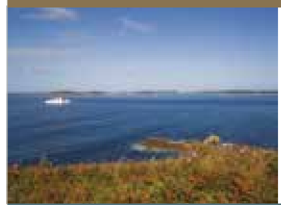
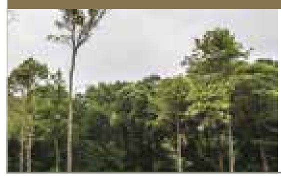
Our process

1. **Desk-based research involving peer review and media research** to benchmark material issues reported by stakeholders.
2. **An employee survey** to rate and rank 39 shortlisted issues.
3. **Materiality workshops** with internal and external stakeholders to discuss and refine findings. Some issues were removed or consolidated and others changed position.
4. **Results were reviewed** by the Duchy Executive Committee and members of the Finance and Audit Committee. Further refinements were made.
5. **Reporting** of our materiality results.
6. **Executive awayday:** The Duchy Executive Committee is meeting later in the year to further debate the findings of the materiality review. It will discuss key issues for stakeholders and how they may impact on future strategy.
7. **Annual report 2020** will include an update on this process.

TOP MATERIAL ISSUES



Material issue	*Read more*
PEOPLE AND CULTURE	
1 Diversity and inclusion	19
2 Employee engagement	19
3 Employee health and safety	20, 21, 35
4 Training and skills development	37
5 Staff succession planning	19, 37
6 Employee well-being	
ENVIRONMENT	
7 Biodiversity loss/ecosystem collapse	13
8 Biosecurity and disease	13
9 Climate crisis	13, 19, 30, 31
10 Emissions reduction	17, 30, 31, 88, 89
11 Energy/energy efficiency	7, 14, 17, 30, 88, 89
12 Food and agriculture stress	13
13 Managing and improving natural capitals (soil, air and water)	6, 12, 13, 24, 29, 30, 34
SOCIETY	
14 Affordable housing	10
15 Local architecture	9
16 Placemaking and sustainable communities	10, 19, 21, 22, 26
17 Relationships with tenants	6, 10, 19, 27–29, 31
18 Rural enterprise	10, 26
19 Supply chain management	
ECONOMY	
20 Commodity price volatility	
21 Diversified revenue streams	10, 20, 42
22 Economic/financial crises	12, 42
23 Capital values	20–25, 34, 37, 42–43
24 Employment trends/ diversification	
25 Revenue Account surplus	11, 20, 23, 34
26 Political change and uncertainty	14
GOVERNANCE	
27 Legislative changes	34
28 Land tenure	
29 Reputation, communications and awareness	14, 19, 21, 27
30 Responsible investment	18
31 Risk management	20–21, 42–43

Top material issues	*Why this matters to our stakeholders*	*How we are responding*
17: RELATIONSHIPS WITH TENANTS		
	For a long-term estate with long-term tenants, maintaining positive and mutually beneficial relationships is vital. This issue was highlighted by both tenants and staff in the materiality review.	It is encouraging that in surveys, well over 90% of our tenants felt that Duchy staff were friendly and approachable. Meaningful contact with tenants is encouraged and monitored. Farm tenants are supported with tenancies which are much longer than the industry norm (see our key performance indicator on page 28).
1, 2, 5: EMPLOYEE ISSUES – ENGAGEMENT, DIVERSITY AND INCLUSION, SUCCESSION PLANNING		
	Our ability to create value for key stakeholders requires knowledgeable and committed staff. The Duchy estate has 148 employees based in its head office in London and in regional offices across the South West, as well as at the Duchy Nursery, woodlands, holiday cottages and St Mary's Quay. Many of these staff are long serving.	Engagement is encouraged through regular office staff meetings, a Staff Consultative Committee made up of employees nominated by their colleagues and an annual Duchy Day where all staff gather at one location for briefings and social events. There is a comprehensive set of policies, including Equality and Diversity, Induction and Whistleblowing. There is an annual appraisal process for all staff and a new Duchy Management Development Programme – read more about this on page 37.
13: MANAGING AND IMPROVING NATURAL CAPITALS		
	Natural capitals include soil, water, air, biodiversity, historic features and landscape. As an historic landed estate, the Duchy is rooted in the natural world and our ability to create value depends on the health of natural capitals. They are of huge importance to The Duke of Cornwall, our tenants and their businesses, and to our local communities.	There is more detail about the Duchy estate's plans for managing and improving natural capitals on pages 30–31.
29: REPUTATION, COMMUNICATIONS AND AWARENESS		
	The Duchy estate is a unique organisation. Public understanding and perception of our work is important.	There is information about this on page 21.
9: CLIMATE CRISIS		
	HRH The Prince of Wales has been an environmental leader for over 40 years and has long been concerned about the climate crisis. This issue will increasingly affect many aspects of the Duchy estate and our tenants and communities.	There is information about this on page 13, where we set out the nature of climate crisis risks for our stakeholders, the potential impacts and how these risks are being managed.

KEY STAKEHOLDERS


The Duke of Cornwall


Tenants


Communities


Employees


Environment

MATERIAL RISKS

The Duchy estate's material risks

In a constantly changing world, we will always face risks and uncertainties. Even with our comprehensive approach to risk management, it is not possible to eliminate all risks, only to anticipate how they might impact the Duchy and its operations and develop a robust response.

Those risks that could have a material impact on our work and value creation are set out below. Details on our principal financial risks and uncertainties can be found in the Governance section on pages 42–43.

Why is this a risk?	*How we manage this risk*	*Potential impacts*
A CAPITAL CASH GENERATION		
Our ability to create long-term financial value depends on having sufficient capital funds to maintain and enhance the Duchy estate. This, in turn, is dependent on our ability to generate capital funds alongside investing in income-earning assets that provide Revenue Account surplus. There is an increasing requirement for capital investment to maintain and improve the estate, but we are constrained by our ability to borrow, sell non-core property and reduce capital expenditure.	We combine good budgetary control and forward planning with ongoing strategic reviews of asset holdings. During the year, we took a significant step to mitigate this risk by re-issuing debt via fixed-rate loan notes of between 40 and 50 years, at very competitive rates.	*Strategic objectives affected:* • Provide income • Generate capital and rebalance capital assets • Cherish, protect and enhance land and property *Resources and relationships affected:* • Financial • Manufactured
B THE STATE OF FARMING		
The complex and uncertain outlook faced by the agricultural sector brings financial, social and environmental risks. It significantly affects many of our assets and tenants, with commodities and farming enterprises coming under financial pressure.	Our increasingly diversified asset portfolio mitigates the scale of this risk. However, for our agricultural tenants, life continues to be challenging on several fronts.	*Strategic objectives affected:* • Provide income • Engage with and actively support communities *Resources and relationships affected:* • Natural • Financial • Community
C SAFE BUILDINGS AND PLACES		
Being the owner of a large portfolio of buildings and associated structures brings inherent safety risks. Buildings used by our staff and tenants must always be safe places to live and work. Site health and safety is vitally important, especially where we undertake maintenance and improvement projects. Similar risks are presented by our historic minerals assets (mines, quarries, adits), the marine estate and St Mary's Harbour.	Safety is a key focus for the team of building surveyors and land agents who manage our properties. We maintain a comprehensive risk register and risk oversight process covering all assets and activities. A comprehensive internal health and safety oversight structure is supported by external health and safety consultants. A safety training programme is also provided for our employees.	*Strategic objectives affected:* • Cherish, protect and enhance land and property *Resources and relationships affected:* • People • Manufactured

Why is this a risk?	*How we manage this risk*	*Potential impacts*
D BALANCING ACCESS AND PROTECTION		
The public derives significant recreational and aesthetic value from the Duchy estate. This is especially the case on Dartmoor, the Isles of Scilly and the Cornish foreshore, in Duchy woodlands, and on public rights of way and permissive access. It is vital we balance short-term value creation and public access with long-term preservation of our social and environmental heritage. This requires a sensitive and thoughtful approach.	Local land management, combined with continuous ownership and longer-term stewardship, increases our understanding of our natural and social assets, and improves our management of the risks. We are currently assessing the natural capitals on the estate to inform future management and protection, while identifying opportunities for public benefit. We have close working relationships with stakeholders with specific interests in these issues, and a formal access risk management programme is in place.	*Strategic objectives affected:* • Engage with and actively support communities • Cherish, protect and enhance land and property *Resources and relationships affected:* • Natural • Community
E PUBLIC UNDERSTANDING AND PERCEPTION		
The Duchy estate is a unique organisation. Public understanding and perception of its work, and the outcomes it achieves, are important to its ability to create value. There is a risk of confusion among stakeholders over the scope and role of the Duchy of Cornwall; for example, it must be differentiated from Duchy Originals (now known as Waitrose Duchy Organic), an organic food brand set up by The Prince of Wales in 1990 and a separate entity. The Duchy is also quite distinct from the County of Cornwall and there is room for confusion in this respect.	Communication continues through the Duchy website, press releases and this Integrated Annual Report. Duchy employees are engaged in a broad programme of outreach with communities where Duchy assets exist. Examples include working with the Council of the Isles of Scilly, Devon farming clubs and local Rotary clubs. From June 2018 to June 2019, a BBC Studios documentary crew has been filming across the Duchy estate to create a two part television series which will give viewers insight into the day to day life of tenants and staff. Due to broadcast in the Autumn of 2019, the documentary will explain to a new audience how the estate is run to reflect The Prince's belief that economic development works best when in harmony with the natural world and local communities.	*Strategic objectives affected:* • Engage with and actively support communities *Resources and relationships affected:* • People • Community • Intellectual

HOW OUR RISK PROFILE IS EVOLVING

THE DUCHY'S MATERIAL RISKS

A **Capital cash generation.** In 2018/19 and the prior year, this was behind budget, but the outlook for 2019/20 is positive: anticipated sales of development land and projects over the next few years will improve the situation.

B **State of farming.** The difficult and uncertain trading environment for farmers continues. It is likely to be further exacerbated by the uncertainty produced following the UK's decision to leave the EU. Announcements on the probable timing and direction of future farm subsidy regimes have improved clarity.

C **Safe buildings and places.** A revised health and safety oversight structure has been in place for two years and is functioning well. There have been no reportable incidents during the year (see KPI on page 28).

D **Balancing access and protection.** A working group was established two years ago to address issues of access, and its work is now in place. The residual risk of damage to the environment remains.

E **Public understanding and perception.** The conclusion of a long-running litigation gave us reassurance over the status of the Duchy of Cornwall. This year's materiality review (see page 18) confirmed the importance of reputation to our stakeholders. Our move to integrated reporting has given us the opportunity to explain in a more comprehensive way our strategy and the work we do. A communications working group has been established.

PERFORMANCE AGAINST STRATEGIC OBJECTIVE

Provide income

The Duchy of Cornwall was established in 1337 to generate an income for the present and future Dukes of Cornwall. Under the charter, The Duke of Cornwall is entitled to the annual revenue surplus generated by the Duchy estate.

KEY PERFORMANCE INDICATOR

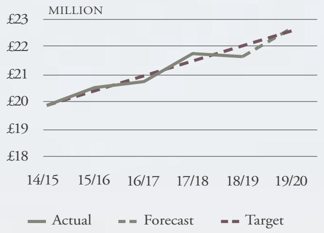
Annualised growth in distributable surplus

Target:
2.6% p.a. average annualised growth in revenue surplus 2015/20

Progress:

2.7%

p.a. average annualised growth



Commentary:
Although the income generated for The Duke of Cornwall fell slightly this year, we still expect to achieve our target of 2.6% annualised growth over the five-year period to March 2020.

BEHIND ON TARGET AHEAD

The income is used to fund the personal and professional expenditure of The Prince of Wales and The Duchess of Cornwall, The Duke and Duchess of Cambridge and The Duke and Duchess of Sussex – including staff, charitable work and public duties.

The income from the Duchy estate does not cover official travel or maintenance of Royal residences, which are funded by the Sovereign Grant[1]. His Royal Highness voluntarily pays income tax at the prevailing rate and has no access to funds from the sale of capital assets. He is the longest-serving Duke of Cornwall and continues to be actively involved in running the estate.

Their Royal Highnesses The Prince of Wales and The Duchess of Cornwall have undertaken 473 engagements in the UK this year, covering 15,174 miles and supporting the work of over 490 charities of which Their Royal Highnesses act as Patron or President.

Income from the estate is also used to invest in external initiatives and projects that help local communities, businesses and the environment to thrive.

1 The Sovereign Grant is the allowance provided annually by the Government from a percentage of the profits of the Crown Estate revenue.

Maintaining a responsible business ethos

The estate endeavours to maximise its capital while never sacrificing its ethos as a responsible and community focused business. When farm leases are put out for tender, all bids are considered – not just by the level of financial gain but in the context of their overall credentials. For example, Tresemple Farm in Cornwall has been let to Rhys and Lois Morris, a young family of starter farmers with an ambition to convert to an organic system – thus maintaining the estate's commitment to support rural communities and promote a wide range of responsible farming practices across the generations.

"It was clear from the start that the Duchy were determined to bring a family back to Tresemple, and especially one that shared their views on nurturing and improving the British farmland. They have always been keen to hear our ideas and have offered guidance from experts to set out long-term plans and goals. The unit set up here is a fantastic template going forward for the young farming family. We hope many others are as fortunate."

RHYS AND LOIS MORRIS

Supporting Dartmoor farmers, communities and environment

One of the initiatives supported by the Duchy of Cornwall is the **Dartmoor Farmers Association**, a 60-strong cooperative of farmer members that has been running since 2007 – a time when prices fell and local farmers became reliant on government subsidies. In 2018, through its own trading body, the Association established a partnership with supermarket chain Morrisons, to supply Dartmoor Farmers-branded seasonal lamb to 10 flagship Morrisons stores in the South West. This pilot was a commercial success and increased the Association's membership by 30%.

The **Dartmoor Pony Society Moorland Scheme** has also benefited from investment by the Duchy estate. Founded by Duchy tenant John Coaker in the late 1980s with support from the estate, the scheme received the Dartmoor Pony Society's Glenda Spooner award for its outstanding contribution towards the preservation of the breed.

Together with The Prince's Countryside Fund, the Heritage Lottery Fund and Dartmoor National Parks, the Duchy estate funds the **Dartmoor Hill Farm Project** (DHFP) – an organisation that supports Dartmoor farmers in overcoming the unique challenges they face. DHFP's output includes training, technological support, funding and guidance.

Future planning: the next financial year

The surplus for the current year, at £21.6million, is in line with our budget. We expect a return to revenue surplus growth in 2019/20. This will be underpinned by interest cost savings resulting from the debt restructuring, as discussed in the message from the Secretary on page 10.

We continue to look forward with a rolling five-year forecast: even a modest growth in the Revenue Account surplus is dependent upon the careful reinvestment of capital cash flows arising from development sales. By and large, the existing portfolio is fully rented and there is little room for organic growth.

Herefordshire

PERFORMANCE AGAINST STRATEGIC OBJECTIVE

Generate capital and rebalance capital assets

A primary aim of the Duchy estate is to generate capital and rebalance capital assets, all while maintaining the quality and integrity of the estate through a cohesive, core property portfolio. With over 600 residential lettings and more than 700 agricultural tenancies across 23 counties in England and Wales, investment in existing infrastructure not only benefits current and future tenants but also guarantees future sustainable income streams.

KEY PERFORMANCE INDICATOR

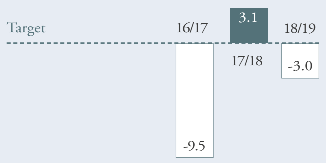
Capital cash flow

Target:
Generate positive capital cash flows from the property portfolio

Progress:

-£3.0m

capital cash flow



Commentary:
Cash flows from our development sites are expected to turn capital cash flow positive in the years ahead.

BEHIND ON TARGET AHEAD

KEY PERFORMANCE INDICATOR

Maintain a cohesive, quality, core property portfolio

Target:
No net diminution in the core property portfolio

Progress:

29

hectares of land sold from a core of 42,970 hectares

Commentary:
There were only 208 hectares sold during the year, of which just 29 hectares were core (less than 0.1% of the core estates). The bulk of this was land at the edge of an estate in Cornwall.

BEHIND ON TARGET AHEAD

Investing in infrastructure at Tresemple Farm, Cornwall

When Tresemple Farm became available for a new tenant in July 2018, it was clear that there was a great deal of potential in the property. By investing capital to construct new farm buildings – including machinery storage and workshop, a straw shed and a livestock building – the letting became an attractive opportunity for new entrants to farming. After it was put out to tender, the letting was granted to Rhys and Lois Morris. Rhys, a new dairy farmer from Wales, and Lois, a vet, have two young children. The couple were keen to convert the farm to an organic system and also took on the Duchy estate's new Natural Capitals Project. The Morris family moved onto the property in September, at which point the series of brand-new farm buildings were close to completion.

Preserving and enhancing Hill Barn Farmhouse, Herefordshire

A £190,000 extension was undertaken at this farmhouse to create a three-bedroom home for the new dairy-farming tenants, Kevin and Justyna Hughes, and their family. The extension was designed by architect Ross Sharpe, with oak cladding from the Duchy estate's local Timberline Wood. The work also included improvements to the existing house. The Hughes family moved into the newly refurbished house when work finished in November 2018.

"The house was finished to a very high standard and the Duchy were open with all stages of the build from planning to completion, allowing us to be involved in all decision-making. Being a dairy farmer, working long hours in all weather conditions, having a comfortable house to retreat to is perfect!"

KEVIN HUGHES

Adding to the permanent housing stock in St Agnes, Isles of Scilly

During the year, a £340,000 major refurbishment was completed at Myrtle Cottage, St Agnes, Isles of Scilly. The building had previously been used as seasonal holiday accommodation, but after this comprehensive refurbishment it was able to be let to a local St Agnes family from this off-island community, where housing is much in demand. The property was underpinned, insulated, repointed, rewired, replumbed and dry-lined and a new floor was laid. A new kitchen and bathroom were provided and the old roof was replaced with Cornish Trevillet slate.

"After waiting 11 years for a family house to be available on St Agnes, we were delighted to move into Myrtle Cottage last August. After living with my parents for all that time, it has been amazing to have so much more space! The children have a bedroom each, and we have been able to unpack belongings we haven't seen in a decade! Being able to live at Myrtle Cottage has meant that we can continue living on the island for the long term."

JANE STEWART, MYRTLE COTTAGE

Future planning: the next financial year

Investment in the existing estate remains a key focus. Funding has been allocated for the regular round of repairs and overhauls, and capital is available for discretionary projects that will help support our communities, and our tenants and their businesses.

Recent years have seen record levels of investment in the built environment at Poundbury and Nansledan. We expect positive capital cash flows in 2019/20 following the realisation of some of these completed assets.

The sale of marginal and off-lying parts of the rural estate will continue where appropriate, particularly where there is little adjoining land. Compared to some recent years, we do not expect to make further substantial property acquisitions but we will continue to look for additional diversification opportunities within the portfolio.

Poundbury

PERFORMANCE AGAINST STRATEGIC OBJECTIVE

Engage with and actively support communities

In line with the views of The Duke of Cornwall, the estate is managed in a way that is of meaningful value to the local community. With this ethos in mind, local residents are actively consulted to ensure that the investment of time, money and expertise is beneficial to the community as a whole. Regional offices, led by Land Stewards, maintain active communication with stakeholders. The Duchy estate supports local businesses and start-up enterprises, leading to job provision and support for thriving communities, both existing and new.

KEY PERFORMANCE INDICATOR

Jobs created at urban extension projects

Target:
At least one job created per house sold

Progress:
1.7
people employed per house sold (Poundbury)

1.2
people employed per house sold (Nansledan)

Commentary:
At Poundbury, 1,705 residential units were sold by the end of the year. There were over 2,800 people working in the businesses and on construction. At Nansledan there have been 269 sales, and there are over 300 people working.

BEHIND ON TARGET AHEAD

KEY PERFORMANCE INDICATOR

Tenant perception

Target:
Our target is to ensure our Net Promoter Score remains above 30 and that the average response regarding the quality of customer service improves from the baseline of 81% (being satisfied or very satisfied).

Progress:
29
Net Promoter Score

81%
Quality of customer service

Commentary:
This is a new KPI focussing on the outcomes of our engagement. Net Promoter Scores, which range from -100 to 100, are used across all sectors to measure overall customer satisfaction and loyalty. Anything above zero is considered 'good'.

BEHIND ON TARGET AHEAD

Supporting a new enterprise: Island Fish, Isles of Scilly

In April 2018, Island Fish, a new enterprise run by brother-and-sister team Amanda and Mark Pender, opened on Bryher in the Isles of Scilly in a new building constructed on land leased by the Duchy estate.

"Building on a remote island in the Atlantic is never easy – but from the moment we went to the Duchy with our ideas, we received nothing but support and a strong understanding of the importance of what we are trying to achieve."

AMANDA PENDER, ISLAND FISH

The Isles of Scilly

KEY PERFORMANCE INDICATOR

Length of Farm Business Tenancies (FBTs) for equipped holdings

Target:
Let all equipped FBTs for periods of no less than 10 years

Progress:
21 years
Average length of FBT on equipped holdings

Commentary:
Since this KPI was launched in 2016, all agreements have been for at least 10 years, with the average length 18 years.

BEHIND ON TARGET AHEAD

KEY PERFORMANCE INDICATOR

Community engagement on major development projects

Target:
Engagement process for all projects

Progress:
Achieved

Commentary:
Engagement events were held for both new major developments (Nansledan and Faversham), and a design workshop was facilitated at Madley, Herefordshire, to assist with the Neighbourhood Plan.

BEHIND ON TARGET AHEAD

Welcoming new businesses in Nansledan

Work started on Nansledan, the Duchy of Cornwall's extension to Newquay, in 2014. When the project finishes it will include approximately 4,000 homes. The goal is the provision of at least one job per household, through commercial lettings and business premises. Nansledan includes a range of commercial buildings for retail, office, industrial and community uses, in different sizes and typically starting from around 180 to 300 square metres. They are available for sale or lease and can be built to order. During 2018, six new businesses opened their doors – Newquay Holiday Lettings, Barber Lounge, Bliss Bridal Gowns, The Little Cornish Pantry, The Blossom Room and Market Recruitment. Some of these businesses were start-ups, while others were already established in the local area.

Newquay Holiday Lettings relocated to Nansledan to take advantage of a larger office space, which is helping the business to develop its local presence and offer a personal service to its clients.

"Being at Nansledan is already helping us expand, and we are moving forward with some exciting collaborations with other local small businesses. Nansledan is going to be a lovely community and it is already all coming together."

LOUISE COOKE, NEWQUAY HOLIDAY LETTINGS

"We're in a great spot, it's so easy to see us and the free parking is really handy for our customers."

DANNY MURPHY, BARBER LOUNGE

"I love the ethos of Nansledan, particularly around building a community. We're starting to see lots of new faces visiting from Newquay."

TRACY ASHTON, BLISS BRIDAL GOWNS

"We're delighted to have successfully recruited six new members of staff, including three who already live in Nansledan."

ALEX ELEY AND HER AUNT JUDITH ELEY, THE LITTLE CORNISH PANTRY

"I needed to take the next step for my business and Nansledan felt right as a new location. I've gained around 30 new clients already, with the majority coming from Nansledan."

HANNAH PAYNE, THE BLOSSOM ROOM

"We have really bought into the ethos of Nansledan. I love the community spirit here and it's great to be part of something from the very beginning."

MATT AND LUCY DODGSON, MARKET RECRUITMENT

Building the community with the community: Bletchingdon Estate development

Since purchasing the Bletchingdon Estate in 2000, we have worked with the local community and stakeholders to carry out development that benefits the area. This included 12 affordable houses initially, followed by a further nine in 2011, as well as a new school and assembly hall. Residents also identified the need for a village shop. Funded by the Duchy estate, this is due to be completed during 2019.

Facilitating Artists in Residence

In his role as a Director of the Islands Partnership, Deputy Land Steward Luke Humphries has helped to facilitate an Artists in Residence programme for the Isles of Scilly. With support from the Arts Council, this has enabled renowned artists Luke Jerram and Gordon Young to take up residence from November 2018. It is hoped that the resulting art will add greater depth to the tourism offer in the Isles of Scilly, as well as helping to strengthen community ties and local identity.

Future planning: the next financial year

Having completed surveys of residential, commercial and agricultural tenants over the past three years, work will begin in the coming year to revisit and develop this exercise. We also have the results of our materiality review (see page 18) – in which reputation, communications and awareness emerged as the most significant issues – to help inform ongoing engagement with our stakeholders.

PERFORMANCE AGAINST STRATEGIC OBJECTIVE

Cherish, protect and enhance land and property

Through responsible and sustainable land management, the Duchy estate aims to maintain a strong and resilient estate for future generations while anticipating and being responsive to rapid changes in the environment and political climate. By investing in the existing portfolio, strengthening infrastructure and focusing on tenant satisfaction, the objective is to sustain the quality and integrity of the physical and social fabric over the long term, in ways that benefit the estate's stakeholders and the wider community.

KEY PERFORMANCE INDICATOR
Quality homes standard

Target:
New KPI – work in progress

Progress:
Under assessment

Commentary:
This new KPI seeks to capture the outcome of the investment made by the Duchy in capital improvements, repairs and maintenance. It replaces a KPI on monetary input. A composite measure has been designed which assesses the standard of key elements of a home: kitchen, bathroom, heating system, electrics, insulation and compliance with all regulations.

Data collection and assessments are underway and will be reported next year. Our target will be to ensure that the quality of property improves over time as a result of our maintenance and improvement programme.

BEHIND ON TARGET AHEAD

KEY PERFORMANCE INDICATOR
Safe buildings and places

Target:
0 HSE reportable incidents or accidents[1]

Progress:
Zero
HSE reportable incidents or accidents

Commentary:
Another year with no incidents or accidents. We are enhancing information flows around near misses.

BEHIND ON TARGET AHEAD

KEY PERFORMANCE INDICATOR
Tenant satisfaction

Target:
To ensure that in future years we improve on the baseline set this year.

Progress:
73%
Tenant satisfaction with property

Commentary:
Through our tenant surveys we have asked tenants about how satisfied they are with the overall quality of their home, workshop, farmhouse or farm buildings. The average score of those replying satisfied or very satisfied is 73%.

BEHIND ON TARGET AHEAD

KEY PERFORMANCE INDICATOR
The proportion of land that is covered by a new Natural Resource Management Plan

Target:
Complete natural resource management plans for 40% of farms by 2019 and 100% by 2020. The original target was to complete these by 2020. The revised target is to complete 50% by 2020 and 100% by 2022.

Progress:
12%
of farms now have Natural Resource Management Plans in place

Commentary:
Designing this project took more time than anticipated, but this is substantially complete and farm assessments are underway in earnest.

BEHIND ON TARGET AHEAD

Forging positive relationships with our tenants

The quality of care invested in the estate is clearly indicated by the positive responses given by Duchy of Cornwall residential and commercial tenants when surveyed. Asked about the overall quality of their home or business premises, 84% of residential tenants, 73% of commercial tenants, and 68% of agricultural tenants responded that they were either "satisfied" or "very satisfied". Qualitative evidence of tenant satisfaction is also demonstrated through the capital investment projects outlined previously.

Somerset

Protecting the curlew population

In March 2018, The Duke of Cornwall convened a meeting at the Two Bridges Hotel on Dartmoor to discuss what could be done to prevent the disappearance of native curlews from the area. Following this fruitful discussion, a five-year licence was obtained that allows the Duchy staff on Dartmoor to assist the threatened curlew population by incubating eggs. In an effort to expedite this process, plans are under way to apply through Natural England for a permit to enable curlew eggs from elsewhere in the UK to be brought to Dartmoor, where the programme could then be implemented. Through the convening power of The Duke of Cornwall, the expertise of Duchy staff and guidance from partner organisations, the initiative is focused on making a tangible contribution to the biodiversity of Dartmoor.

Applying natural capital requirements when letting farm tenancies

Applicants for the tenancy of Carglonnan Farm, Duloe, Cornwall, are required to sign up to the Duchy estate's Natural Capitals Project and commit to a programme of management designed to improve biodiversity and soil conservation. The new tenant will be chosen from current estate tenant families, with the intention of giving second-generation farmers the opportunity to start their own business. This rigorous and selective interview process will enable the land in question to retain its value in the very widest sense and act as a source of sustainable income long into the future.

Working to restore Dartmoor peatland

For over a decade, we have been working with stakeholders to explore the extent and condition of the Dartmoor peatlands. Recently, DEFRA (the Department for Environment, Food and Rural Affairs) awarded a grant of £1.9million to restore the peatland, following a bid submitted by South West Water on behalf of the peatland partnerships on Dartmoor, Exmoor and Bodmin Moor. To date, £1.35million of this has been used on Dartmoor to restore 290 hectares of land, much of it belonging to the Duchy estate and forming part of the Forest of Dartmoor.

In 2018, Tom Stratton, Duchy Deputy Land Steward, met with International Union for Conservation of Nature (IUCN) representatives to discuss implementing this work in conjunction with the Peatland Code. Together with the work that the IUCN has done on peatland and how methods of restoration contribute towards carbon sequestration, this helps hugely in creating a possible basis for carbon sale. It is a prospect with significant potential to advance the goal of peatland restoration and to unlock revenue income.

Strengthening natural capital

Our Natural Capitals Project has continued with the appointment of a Natural Capitals Project Advisor hired on a two-year contract. Previously with Natural England, Jeremy Clitherow is working with Duchy Assistant Land Steward Rachel Price-Greenow to undertake farm audits across the estate. The direct contact with tenants enabled by these audits has encouraged additional take-up of the programme. Plans are also under way to re-let Carglonnan Farm on the Duloe Estate, with a contingency agreement for any future residents to commit to sustainable practices designed to enhance the value of natural capital.

We have also engaged with Exeter University to evaluate the effect of current farming practices on local bumblebee populations. Through its Bee Steward programme, the University has outlined a series of land management practices that could increase the density of bee colonies.

Future planning: the next financial year

As part of our Natural Capitals Project, the work to complete natural resource management plans for all farms got off to a slower start than anticipated, as we needed to develop supporting digital resources and recruit specialist staff to help us. This design phase is now substantially resolved: with 24 plans completed to date, we now anticipate a further 80 will be carried out over the next year, taking us past the half-way mark. Early indications suggest that the plans will provide a rich and valuable resource for protecting and enhancing the sustainable management of the estate.

PERFORMANCE AGAINST STRATEGIC OBJECTIVE

Improve environmental outcomes

Reducing the environmental impact of the Duchy estate's in-house operations and improving environmental outcomes across the estate is a key focus of our management approach. The current Duke of Cornwall has been an influential spokesperson on the topic of climate crisis for over four decades.

KEY PERFORMANCE INDICATOR

Renewable energy installed capacity and projects facilitated

Target:
Grow installed renewable energy capacity annually and facilitate other projects

Progress:

18/19	2,942 kW
17/18	2,901 kW
16/17	2,451 kW

Commentary:
There have been no new AD or solar-PV installations during the year, but we are excited to have our first hydro-electric generator, on Dartmoor, and a number of new heat pumps in houses and workshops.

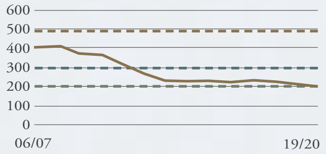
BEHIND ON TARGET AHEAD

KEY PERFORMANCE INDICATOR

Direct greenhouse gas (GHG) emissions

Target:
60% reduction against baseline by 2020

Progress:
60%
reduction against baseline



Commentary:
Whilst we have achieved an 87% reduction in emissions from buildings used by the Duchy, there has only been an 18% reduction in travel-related emissions. We are working on policies to address this.

BEHIND ON TARGET AHEAD

KEY PERFORMANCE INDICATOR

Natural capital assets

Target:
Enhancement of natural capitals on every farm

Progress:
Started

KPI requires farm assessments to have been completed. We expect to able to provide an update in our 2019/20 report.

BEHIND ON TARGET AHEAD

Supporting the circular economy with anaerobic digestion

In Spring 2018, Colston Gay, tenant at North Widcombe Farm in Somerset, launched the sale of Gardeners' Dream soil conditioner, made using the digestate from the farm's anaerobic digester (AD) plant. This follows the example of the successful similar venture at Rainbarrow Farm outside Poundbury, the Duchy estate's urban extension to Dorchester. Rainbarrow's Bloomin Amazing's bagged digestate was a finalist at the 2018 GLEE (Garden, Leisure, Equipment, Exhibition) Awards. The innovative use of these two AD plants was instigated by The Duke of Cornwall and enabled by investment from the Duchy of Cornwall estate.


Bee bricks

Providing bee bricks and bird bricks at Nansledan and beyond

The estate maintains a close working relationship with the RSPB to help ensure best practice in supporting local bird life across all its development sites. This includes supporting and encouraging local developers to integrate swift boxes into existing building plans. It is an approach that has already proved successful at Poundbury and Nansledan and continues to be implemented at Bletchingdon, where the current goal of one swift box per dwelling is being averaged across the site. As a result, more than 500 swift boxes have been installed on estate land, with thousands more in the planning stages.

At Nansledan, the estate has worked with Soil Association award-winning company Green & Blue to integrate 'bee bricks' into the development process. This initiative complements the already established bee-friendly planting programme being undertaken on the site. Made using up to 75% Cornish china clay waste, the bricks' structure provides a nesting place for solitary bees. Such habitat provision is needed due to the loss of crumbling mortar and of hedgerows, both of which historically acted as solitary bees' primary nesting places.

There are more than 250 species of solitary bees living in the UK, making up 90% of the total bee population and pollinating around one-third of all UK crops.

Conserving fresh water at St Mary's Harbour, Isles of Scilly

As the effects of the climate crisis alter the country's weather patterns, the regional offices across the Duchy of Cornwall aim to respond in a way that is both financially and environmentally sustainable. For example, the exceptionally dry, hot summer of 2018 resulted in severely low levels of ground water on the Isles of Scilly. The staff at St Mary's Harbour rely on these water supplies to undertake regular maintenance, including cleaning slipways, steps and boats. In an effort to reduce the level of freshwater consumption, the Harbour invested in two 1,000 litre tanks, which were installed on the workshop roof. The water harvested from these tanks is then recycled and used for everyday maintenance purposes. The success of this pilot has been such that plans are currently under way to install further tanks on off-island quays.

Future planning: the next financial year

In 2012, The Duke of Cornwall opened the UK's first full-scale AD and biomethane-to-grid plant at Rainbarrow Farm, Dorset. Today, the plant provides enough power to heat every home in Poundbury and Dorchester, and the digestate it produces is packaged and sold as an award-winning soil conditioner. The biogas produced by the plant is purified to extract the methane, which is then injected into the local gas network. Starting next year, the plant will add another string to its bow by capturing the remaining CO_2. This can then be sold to the food and drink industry, for example to be used to make carbonated beverages.

Emissions from buildings used as Duchy offices have fallen dramatically compared to baseline. However, emissions associated with travel have proved harder to address. Managing a geographically disparate estate and maintaining close contact with tenants requires staff to travel. The average emissions per mile travelled are falling, but the number of miles travelled are not. In the past we have trialled biodiesel and an electric pool car. During the coming year, it is planned that additional electric vans will be brought in to service. Internet bandwidth in each office will be reviewed to ensure the video conferencing facilities are optimised. And the Staff Consultative Committee and the Duchy Executive Committee are working on further ways to address this.


Dartmoor

GOVERNANCE

Direction, oversight and transparency

The Dukes of Cornwall have traditionally managed their own estates; the current Duke actively leads the Duchy and chairs The Prince's Council. Indeed, November 2019 will mark The Prince's 50th anniversary as Chairman of The Prince's Council. The leadership provided by the Council is fundamental to the performance of the Duchy estate. The Council delegates executive responsibility to its respective Committees, while maintaining oversight through members' participation in these Committees.

Harewood End, Herefordshire

GOVERNANCE AT A GLANCE

THE PRINCE'S COUNCIL

HM TREASURY

- FINANCE & AUDIT COMMITTEE
- COMMERCIAL & DEVELOPMENT COMMITTEE
- RURAL COMMITTEE
- EXECUTIVE COMMITTEE
- REMUNERATION COMMITTEE

The Duchy is one of a kind

It is neither a corporation nor company, trust nor settlement. In the interests of transparency and good practice, we provide details of the governance structure to explain how the estate is run in a way that is designed to provide clear direction and oversight.

Transparency

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.

The management of the estate is subject to the supervision of The Prince's Council and to an annual independent external audit. 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. These 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.

Governance roles and activities

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

Role and remit	*Principal resources and relationships overseen*	*Matters reviewed*
THE PRINCE'S COUNCIL		
• Chaired by The Prince of Wales. • Provides advice to His Royal Highness regarding the strategy of the Duchy. • Except for the membership of the Secretary and Keeper of the Records, the Council is a non-executive body.	The Prince's Council has always taken a holistic view of the resources and relationships the Duchy estate draws from and impacts upon. In its discussions and recommendations, the Council takes care to balance all resources and relationships.	Met in June and December 2018. Receives reports from all Committees and reviews all bona vacantia and capital transaction matters. Matters for consideration this year included the Duchy's first Modern Slavery Statement, new lettings, the state of farming, the Natural Capitals Project and the development portfolio.
FINANCE & AUDIT COMMITTEE		
• Advises on the Duchy's financial strategy and liaises with the external auditor. • Chaired by The Hon Sir James Leigh-Pemberton, the Receiver General. • The Committee reviews financial performance, ensuring that an appropriate balance is 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.	Financial Manufactured	Met four times, in June, September, November and March. Specific topics covered during the year included: findings of the annual external audit; the Integrated Annual Report for 2018; the annual property and investment valuation; the responsible investment strategy; a review of the cost base; further investment in value-added projects for J V Energen LLP; and long-term borrowing. 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. Looking ahead, the Committee will be focusing on strategies for increasing Revenue Account surplus growth.
RURAL COMMITTEE		
• 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.	Natural Community Financial Manufactured	Met twice, in June and November. Each meeting reviews financial issues and the state of farming. At their meetings this year, the Committee considered the performance of the Duchy's trading operations (the Nursery, Holiday Cottage portfolio, St Mary's Harbour and Woodlands); the Natural Capitals Project; the Agriculture Bill; and the design of the Agricultural Tenants' Survey. In June 2018, the Committee undertook a full day's visit to the Duchy's Eastern District estates in Somerset, including discussion with tenant farmers about Brexit, natural capitals, business cooperation, subsidy regimes and diversification. There was a tour of residential property to consider the standard of repairs, and a site visit to a farm-based anaerobic digester that had been facilitated by the Duchy. Areas of importance for the future will include the impact of the Agriculture Bill and Brexit, and any implications arising from the Agricultural Tenants' Survey.

Role and remit	*Principal resources and relationships overseen*	*Matters reviewed*
COMMERCIAL & DEVELOPMENT COMMITTEE		
• Advises on the commercial property portfolio and development sites (excluding Poundbury). • Chaired by John Stephen.	Manufactured Community	Met four times, in June, September, November and March. Reviewed the financial performance of the commercial portfolio and Kennington estate, with a focus this year on development sites in Cornwall and Kent, and on Dartmoor Prison. In June 2018, the Committee visited the Duchy property Tintagel House on the Albert Embankment in London. As well as an inspection of the property and possibilities for its future, the Committee considered the impact of the Thames Tideway Tunnel project, which borders the site.
EXECUTIVE COMMITTEE		
• Implements strategy and manages all operational activities. • Chaired by Alastair Martin, the Secretary and Keeper of the Records.	People Intellectual Community Financial	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 progress towards all strategic objectives (see pages 22–31); a health and safety briefing at every meeting; modern slavery issues; management KPIs; legal services, GDPR, HR and staff updates; and PR and communication matters. There were detailed reviews of the cost base, the Natural Capitals Project, the approach to the management of risk and a debate of the merits of in-house versus outsourced trades and consultancy services. Given our profile and its increasing occurrence, we began a review of cyber-security. The Duchy uses third party experts to assist in this. The Committee considered how best to deliver an increased programme of engagement for The Duke of Cambridge.

Other governance mechanisms

Delivery of the Duchy's long-standing development at Poundbury is guided by monthly site meetings involving key staff, the Poundbury Development Director, and the Secretary and Keeper of the Records.

The Remuneration Committee, chaired by Sir Nicholas Bacon, the Lord Warden, meets annually in March as a sub-committee of the Finance & Audit Committee. Its role is to review and approve staff salaries and benefits.

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 Chair.
- **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.

Governance in action

The Prince's Council and its committees are deeply involved in ensuring the estate runs smoothly, buildings are fit for purpose and farms have the best tenants.

HRH with Colston Gay, farm tenant at North Widcombe Farm, at the new AD plant

Monitoring investment in the estate – Rural Committee site visits

In June 2018 the Rural Committee undertook a full day visit to the Duchy's Eastern District estates in Somerset, including discussion with tenant farmers about Brexit, natural capitals, business cooperation, subsidy regimes and diversification.

There was a tour of residential property to consider the standard of repairs, including The Thatch, a cottage in the heart of the village of Newton St Loe near Bath. The previous tenant had left after living in the property for more than 35 years, and the opportunity was taken to carry out important structural work and prepare for re-letting, an investment of over £150,000.

The Committee also visited the on-farm anaerobic digester (AD) plant at North Widcombe Farm, near Bristol. The project has been enabled with Duchy support.

Planning for the future use of property – Commercial & Development Committee

In June 2018, the Commercial & Development Committee visited the Duchy property Tintagel House on the Albert Embankment in London. Built in the 1960s, the 12-storey building has recently been refurbished by tenants The Office Group to meet the changing demands for flexible workspace.

The Committee also considered the impact of the multi-billion pound Thames Tideway Tunnel project which borders the site. Works are due to be completed in 2022 and the land will become a new area for public access.

Tintagel House, London, prior to refurbishment

Duchy estate head office

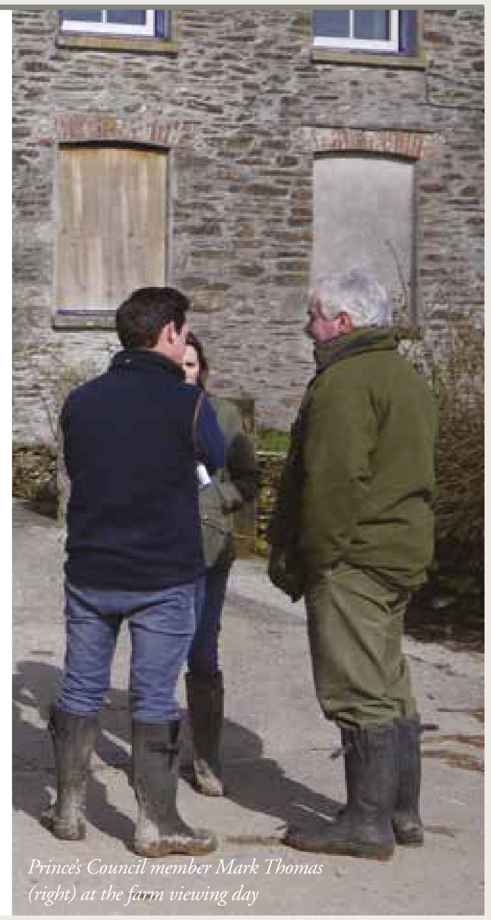
Securing long-term financing – The Prince's Council

A material risk for a number of years has been the generation of the capital cash which underpins our long-term value creation. During the year, and following discussions between The Prince of Wales, The Duke of Cambridge and The Prince's Council, we decided to take advantage of historically low interest rates and reissue our debt. This was achieved via fixed-rate loan notes of between 40 and 50 years, at very competitive rates, and secures the estate's modest gearing, allowing us to continue to take long-term decisions in the best interests of all stakeholders.

Finding the best new tenants – Rural Committee expertise

Finding a new tenant for a Duchy farm that has become vacant is an important task. The re-letting of Tresemple Farm on the Pencalenick Estate near Truro was no exception, and members of the Rural Committee played a vital role. Lady Arran has spent many years helping to manage the family estate in Devon. Mark Thomas is a pedigree beef and sheep farmer from Launceston, Cornwall. Both have served on Council for more than a decade and know the Duchy intimately. They met around 30 prospective tenants who attended the farm open day in March 2018, and then worked with Duchy staff to review the formal tenders received.

Three farming families were shortlisted for interviewing on the farms where they currently worked, with visits to mid-Wales, south-Wales and Cornwall. Mark and Lady Arran were then a key part of the decision to let the farm to Rhys and Lois Morris, who moved to the farm in September. You can read more about how the farm was prepared for the new tenants on page 24.



Prince's Council member Mark Thomas (right) at the farm viewing day

Developing the Duchy leadership of tomorrow

The new Duchy Management Development Programme started in April 2018 and runs for two years. It has been specifically designed for those with management and leadership responsibilities and builds on work undertaken by the Executive Committee. Participants come from all offices and disciplines within the Duchy.

Personal explorations of psychological preferences, personal strengths, motivation, emotional intelligence and attitudes to change are supported by individual coaching sessions and complemented with group sessions which combine skill-based work and action learning. In the first year these have looked at personal leadership and goal setting, team dynamics, leadership styles and building trust, motivation and learning, and change management.

The second year, which runs through to the end of 2019, will build on these themes and explore personal strengths, communication skills and effective delegation techniques.

The Prince's Council and Committees

The Prince's Council provides the Duchy with invaluable professional expertise and experience. Its membership includes recognised leaders in agriculture, commercial property, estate management, investment management, law and finance. Appointments to The Prince's Council are within the gift of The Duke of Cornwall.

	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 Sir James Leigh-Pemberton	December 1999	✓	✓			✓	
The Attorney-General to His Royal Highness – Jonathan Crow QC	December 2006	✓					
The Rt Hon The Lord Rothschild	June 2006	✓					
Mark Thomas	December 2006	✓		✓			
The Countess of Arran	June 2007	✓		✓			
James Williams	November 2009	✓	✓	✓		✓	
John Stephen	May 2012	✓			✓		
The Secretary and Keeper of the Records – Alastair Martin	May 2012	✓	✓	✓	✓	✓	✓
Ian Marchant	May 2012	✓	✓				
Clive Alderton, Principal Private Secretary to Their Royal Highnesses The Prince of Wales and The Duchess of Cornwall	October 2015	✓	✓				
ADVISERS TO THE COUNCIL							
David Fursdon	April 2008			✓			
Paul Morrell	February 2012				✓		
Andrew Wright, Treasurer to Their Royal Highnesses The Prince of Wales and The Duchess of Cornwall	May 2012		✓				
Sir Michael Hintze	September 2014		✓				
Henry Richards	November 2014				✓		
Kit Martin	February 2015				✓		
The Marquess of Downshire	August 2017			✓			
DUCHY STAFF							
Linda Bryant, Property Services Director							✓
Marie Cook, Operations and HR Director						✓	✓
David Curtis, Land Steward, Eastern District				✓			✓
Chris Gregory, Land Steward, Western District and Isles of Scilly				✓			✓
Peter James, Project Manager					✓		
Ben Murphy, Estate Director					✓		✓
Andrew Phillips, Rural Director of Finance				✓			✓
Nick Pollock, Head of Planning					✓		✓
Nicola Walker, Kennington Estate Manager					✓		
Keith Willis, Finance Director			✓	✓	✓	✓	✓

The Prince's Council

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

The Hon Sir James Leigh-Pemberton
Receiver General to His Royal Highness, 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). Following the merger of UKFI with UK Government Investments, he currently serves as its Deputy Chair.

Jonathan Crow QC
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.

The Rt Hon The Lord Rothschild
Chair 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 Chair of the National Beef Association (South West) and President of South Devon Herd Book Society.

The Countess of Arran
Lady Arran, Vice Lord-Lieutenant of Devon, has been involved in running her family estate for 28 years and has many interests in the county, particularly in the rural community.

James Williams
James Williams returned to his home county of Cornwall after an extensive career in investment management, working in many parts of the world. His interests today cover education, the arts and agriculture, as well as involvement with Cornish charitable ventures.

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

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

Ian Marchant
Former Chief Executive Officer of Scottish and Southern Energy, Ian has been Chair of the international oil services company, Wood, since 2014. He is Honorary President of the Royal Zoological Society of Scotland and Chair of Thames Water plc.

Clive Alderton
Principal Private Secretary to Their Royal Highnesses The Prince of Wales and The Duchess of Cornwall, Clive joined The Royal Household in 2015, having previously served in several Diplomatic posts overseas, most recently as Her Majesty's Ambassador to the Kingdom of Morocco.

Advisers to the Council

David Fursdon
David is a qualified rural surveyor and agricultural valuer. He is Chair of Beeswax Dyson Farming Limited and a Trustee on the National Trust Board. A former Country Land and Business Association 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 Chair of 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 Their Royal Highnesses The Prince of Wales and The Duchess of Cornwall.

Sir Michael Hintze
Sir Michael is the founder, Group Executive Chair and Senior Investment Officer of CQS, a London-based investment management firm. Before establishing CQS in 1999, Michael held senior roles at CSFB and Goldman Sachs. In the charitable sector, the Hintze Family Charitable Foundation has provided funding to over 200 charities. Michael is Senior Vice Patron of the Royal Navy and Royal Marines Charity and Special Friend of the aircraft carrier HMS Queen Elizabeth, a Patron of the Arts of the Vatican Museums and a Trustee of the National Portrait Gallery. Through MH Premium Farms, Michael has significant investments in the agricultural sector.

Henry Richards
Henry was Executive Chair of Lands Improvement Holdings Limited (LIH) before standing down when the business was sold in September 2015, and remains a consultant to the company. Before 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.

The Marquess of Downshire
Nick is a chartered accountant with a diploma in advanced farm management from the Royal Agricultural College, Cirencester. He has worked in corporate finance and as a finance director in the technology sector. He now holds a number of non-executive directorships, including being on the board of the Country Land and Business Association. He is a council member for the Duchy of Lancaster, acts as trustee to several private estates and runs the family estate in Yorkshire.

Other disclosures

The Duke of Cornwall's Benevolent Fund

In the Benevolent Fund's last financial year, it made grants and commitments of c.£153,000 (2018: c.£113,000) 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 £106,000 (2018: £115,000), made to causes in the following areas:

- Agriculture £16,000 (2018: £15,000);
- Environment £32,000 (2018: £35,000); and
- Community £58,000 (2018: £65,000).

Significant individual donations included:

- £25,000 (2018: £28,000) to the Islands Partnership, a body dedicated to the promotion of the destination of the Isles of Scilly; and
- £15,000 (2018: £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 to continue to strengthen its skilled workforce.

The Duchy estate is committed to open discussion and direct consultation with all employees as part of its Employee Relations Policy. Communication channels include 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 estate. 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 the International Financial Reporting Standards (IFRS), 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 IFRS 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 UK 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, hazard and financial risks.

The Prince's Council and its sub-committees take account of strategic risk as part of their deliberations. Project, operational, hazard 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.

A risk register and risk management structure supports the Council and Committees. Risks are grouped by asset or activity with a named individual responsible for assessing each risk and the corresponding mitigations. An overarching risk management structure categorises risks for review and comparison.

Risk and internal control statement

The Duchy's operations expose it to a variety of financial risks, including 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 that 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.

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. Portfolios are reviewed on a regular basis to ensure 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 £0.8million. 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 sale 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 executive responsibility for the management of the Duchy to the Secretary and Keeper of the Records, and the Finance & Audit Committee regularly reviews the nature and extent of the Duchy's operations and financial risks. The Committee is satisfied that the Duchy maintains and operates an appropriate system of internal controls, although any such system can only manage, rather than eliminate, risk. It is therefore not possible for such a system to provide absolute assurance against material misstatement or loss.

The key internal financial controls are:

Financial management
A comprehensive annual budgeting and forecasting system 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 robust procedures and controls, in accordance with directions issued by the Secretary and Keeper of the Records. Compliance is overseen by the Executive Committee.

Capital investment appraisal
Clearly defined guidelines are in place for the assessment, authorisation and control of all capital receipts and expenditure.

Risk register
A comprehensive risk register is maintained and used as the basis for regular review by the Executive and Finance & Audit Committees.

In addition to the financial risks outlined here, a wide range of other factors is taken into account, including macroeconomic and environmental challenges as described on pages 12–13 and 20–21 of this report.

YEAR ENDED 31ST MARCH 2019

Independent auditor's report to The Duke of Cornwall

REPORT ON THE AUDIT OF THE ACCOUNTS

Opinion

In my opinion, the Duchy of Cornwall's Group financial statements 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 2019 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 European Union 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.

I have audited the Accounts, included within the Integrated Annual Report (the "Annual Report"), which comprise: the Group and the Duchy of Cornwall balance sheets as at 31st March 2019; the Group Revenue Account Statement of Comprehensive Income, the Group Capital Account Statement of Comprehensive Income, the Group and the Duchy of Cornwall statements of cash flows, and the Group and the 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 description of the significant accounting policies.

Basis for opinion

I conducted my audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. My responsibilities under ISAs (UK) are further described in the Auditor responsibilities for the audit of the Accounts section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Independence

I remained independent of the Group in accordance with the ethical requirements that are relevant to my audit of the Accounts in the UK, which includes the FRC's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

ISAs (UK) require me to report to you when:

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

I have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and the Duchy of Cornwall's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Group's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the Accounts and my auditor's report thereon. The Proper Officers are responsible for the other information. My opinion on the Accounts does not cover the other information and, accordingly, I do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with my audit of the Accounts, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Accounts or my knowledge obtained in the audit, or otherwise appears to be materially misstated. If I identify an apparent material inconsistency or material misstatement, I am required to perform procedures to conclude whether there is a material misstatement of the Accounts or a material misstatement of the other information. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report based on these responsibilities.

With respect to the Strategic Report and Proper Officers' report, I also considered whether the disclosures required by the Accounts Direction given by HM Treasury dated 8th May 2017 have been included.

Based on the responsibilities described above and my work undertaken in the course of the audit, ISAs (UK) require me also to report certain opinions and matters as described below.

Strategic Report and Proper Officers' report

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 year ended 31st March 2019 is consistent with the Accounts and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and the Duchy of Cornwall and their environment obtained in the course of the audit, I did not identify any material misstatements in the Strategic Report and Proper Officers' report.

Responsibilities for the Accounts and the audit

Responsibilities of the Proper Officers for the Accounts

As explained more fully in the Statement of Proper Officers' responsibilities in the preparation of the Accounts set out on page 41, 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. The Proper Officers are also responsible for such internal control as they determine is necessary to enable the preparation of the Accounts that are free from material misstatement, whether due to fraud or error.

In preparing the Accounts, the Proper Officers are responsible for assessing the Group's and the Duchy of Cornwall's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Proper Officers either intend to liquidate the Group or the Duchy of Cornwall or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Accounts

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

A further description of my responsibilities for the audit of the Accounts is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Use of this report

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.

OTHER REQUIRED REPORTING

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.

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.

Other matters

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

- a sanction of 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.

Katharine Finn
Chartered Accountant and
Statutory Auditor
Bristol
6th June 2019

YEAR ENDED 31ST MARCH 2019

Financial statements

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 31st March 2018 £'000	Year ended 31st March 2019 £'000
Revenue	2	35,575	36,504
Operating costs	2	(13,551)	(14,106)
Operating surplus		**22,024**	**22,398**
Finance income	5	3,345	2,713
Finance costs	6	(3,494)	(3,421)
Net finance costs		(149)	(708)
Net surplus for the year		21,875	21,690
Surplus attributable to:			
Non-controlling interests		145	63
HRH		**21,730**	**21,627**
Other comprehensive income/(expense)			
Items that will not be reclassified subsequently to income statement:			
Actuarial gain/(loss) on retirement benefit obligations	7	2,845	(400)
Total comprehensive income on Revenue Account		**24,720**	**21,290**
Total comprehensive income attributable to:			
Non-controlling interests		145	63
Duchy of Cornwall		24,575	21,227

All operations are considered to be continuing.

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 31st March 2018 £'000	Year ended 31st March 2019 £'000
Net gain from fair value adjustment on investment property	8	22,856	4,256
Hedge termination costs		(4,382)	(1,890)
Net gain on the disposal of investment property		1,908	4,007
Net gain on revaluation of investment property held for sale		425	620
Net gain on the disposal of investment property held for sale		1,430	818
Share of loss from joint venture	10	–	(2,000)
Net gain on sale of associate		–	510
Net loss on the disposal of financial assets	11	(851)	–
Finance costs		–	(187)
Charge from Revenue for salary costs	2	(897)	(967)
Other costs		(255)	(285)
Net surplus for the year		**20,234**	**4,882**
Surplus attributable to			
Non-controlling interests		–	209
Duchy of Cornwall		20,234	4,673
Other comprehensive (expense)/income			
Items that will not be reclassified to capital profit or loss:			
Net loss on revaluation of owner occupied property	9	(671)	(241)
Items that may be reclassified to capital profit or loss:			
Net (loss)/gain on the revaluation of financial assets	11	(3,907)	2,763
Net gain on the revaluation of financial derivatives	15	6,691	1,075
Total comprehensive income on Capital Account		**22,347**	**8,479**
Total comprehensive income attributable to:			
Non-controlling interests		–	209
Duchy of Cornwall		22,347	8,270

The notes on pages 54 to 84 are an integral part of these financial statements.

Group balance sheet

	Notes	Year ended 31st March 2018 Restated[1] £'000	Year ended 31st March 2019 £'000
Assets			
Non-current assets			
Investment property	8	940,473	949,307
Property, plant and equipment	9	13,964	14,634
Investments in joint ventures and associates	10	11,208	9,836
Financial assets	11	62,655	94,105
Trade and other receivables	12	200	200
Total non-current assets		**1,028,500**	**1,068,082**
Current assets			
Inventories		1,679	1,492
Trade and other receivables	12	8,826	9,225
Cash and cash equivalents	22	11,045	7,708
		21,550	18,425
Investment property assets held for sale	13	16,455	13,241
Total current assets		**38,005**	**31,666**
Total assets		**1,066,505**	**1,099,748**
Liabilities			
Current liabilities			
Trade and other payables	14	(24,769)	(17,411)
Borrowings	15	(132)	(808)
Lease liabilities		–	(100)
Total current liabilities		**(24,901)**	**(18,319)**
Non-current liabilities			
Trade and other payables	14	(5,095)	(9,476)
Borrowings	15	(103,093)	(132,643)
Derivative financial instruments	15	(1,602)	(769)
Retirement benefit obligations	7	(5,138)	(5,301)
Total non-current liabilities		**(114,928)**	**(148,189)**
Net assets		**926,676**	**933,240**
Reserves			
Revenue reserve available for distribution to HRH		5,187	3,609
Retirement benefit reserve		(7,064)	(7,464)
Capital reserve		929,342	936,537
Hedging reserve		(1,122)	(47)
		926,343	932,635
Non-controlling interest		333	605
Total reserves		**926,676**	**933,240**

The notes on pages 54 to 84 are an integral part of these financial statements.

The financial statements on pages 46 to 84 were approved by the Proper Officers and signed on their behalf by Alastair Martin, Secretary and Keeper of the Records, 6th June 2019.

1. See note 23.

Duchy of Cornwall balance sheet

	Notes	Year ended 31st March 2018 Restated[1] £'000	Year ended 31st March 2019 £'000
Assets			
Non-current assets			
Investment property	8	930,124	938,959
Property, plant and equipment	9	7,678	8,072
Investments in joint ventures and associates	10	11,208	9,836
Investments in subsidiaries	10	8,867	8,441
Financial assets	11	62,655	94,105
Trade and other receivables	12	6,350	5,850
Total non-current assets		**1,026,882**	**1,065,263**
Current assets			
Inventories		376	370
Trade and other receivables	12	7,461	7,694
Cash and cash equivalents	22	10,464	6,540
		18,301	14,604
Investment property assets held for sale	13	16,455	13,241
Total current assets		**34,756**	**27,845**
Total assets		**1,061,638**	**1,093,108**
Liabilities			
Current liabilities			
Trade and other payables	14	(22,895)	(15,626)
Lease liabilities		–	(78)
Total current liabilities		**(22,895)**	**(15,704)**
Non-current liabilities			
Trade and other payables	14	(5,095)	(9,476)
Borrowings	15	(103,093)	(132,643)
Derivative financial instruments	15	(1,602)	(769)
Retirement benefit obligations	7	(5,138)	(5,301)
Total non-current liabilities		**(114,928)**	**(148,189)**
Net assets		**923,815**	**929,215**
Reserves			
Revenue reserve available for distribution to HRH		4,276	2,107
Retirement benefit reserve		(7,064)	(7,464)
Capital reserve		927,725	934,619
Hedging reserve		(1,122)	(47)
Total reserves		**923,815**	**929,215**

The notes on pages 54 to 84 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 profit for the year for the Duchy was £21,036,000 (2018: £21,096,000).

The financial statements on pages 46 to 84 were approved by the Proper Officers and signed on their behalf by Alastair Martin, Secretary and Keeper of the Records, 6th June 2019.

1. See note 23.

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 1st April 2017	**3,486**	**(9,909)**	**911,779**	**(7,813)**	**897,543**	**188**	**897,731**
Net surplus for the year	21,730	–	20,234	–	41,964	145	42,109
Other comprehensive income/(expense)							
Net loss on revaluation of owner occupied property (note 9)	–	–	(671)	–	(671)	–	(671)
Net loss on revaluation of financial assets (note 11)	–	–	(3,907)	–	(3,907)	–	(3,907)
Gain on financial derivatives (note 15)	–	–	–	6,691	6,691	–	6,691
Actuarial gain on retirement benefit obligations (note 7)	–	2,845	–	–	2,845	–	2,845
Total comprehensive income/(expense)	**21,730**	**2,845**	**15,656**	**6,691**	**46,922**	**145**	**47,067**
	25,216	(7,064)	927,435	(1,122)	944,465	333	944,798
Less payments made to HRH							
In respect of current year	(16,542)	–	–	–	(16,542)	–	(16,542)
In respect of prior year	(3,487)	–	–	–	(3,487)	–	(3,487)
Balance as at 31st March 2018 as originally presented	**5,187**	**(7,064)**	**927,435**	**(1,122)**	**924,436**	**333**	**924,769**
Change in accounting policy	–	–	1,907	–	1,907	–	1,907
Balance as at 1st April 2018 restated[1]	5,187	(7,064)	929,342	(1,122)	926,343	333	926,676
Net surplus for the year	21,627	–	4,673	–	26,300	272	26,572
Other comprehensive income/(expense)							
Net loss on revaluation of owner occupied property (note 9)	–	–	(241)	–	(241)	–	(241)
Net gain on revaluation of financial assets (note 11)	–	–	2,763	–	2,763	–	2,763
Gain on financial derivatives (note 15)	–	–	–	1,075	1,075	–	1,075
Actuarial loss on retirement benefit obligations (note 7)	–	(400)	–	–	(400)	–	(400)
Total comprehensive income/(expense)	**21,627**	**(400)**	**7,195**	**1,075**	**29,497**	**272**	**29,769**
	26,814	(7,464)	936,537	(47)	955,840	605	956,445
Less payments made to HRH							
In respect of current year	(18,018)	–	–	–	(18,018)	–	(18,018)
In respect of prior year	(5,187)	–	–	–	(5,187)	–	(5,187)
Balance as at 31st March 2019	**3,609**	**(7,464)**	**936,537**	**(47)**	**932,635**	**605**	**933,240**

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.

1. See note 23.

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 1st April 2017	**3,209**	**(9,909)**	**910,813**	**(7,813)**	**896,300**
Net surplus for the year	21,096	–	19,583	–	40,679
Other comprehensive income/(expense)					
Net loss on revaluation of owner occupied property (note 9)	–	–	(671)	–	(671)
Net loss on revaluation of financial assets (note 11)	–	–	(3,907)	–	(3,907)
Gain on financial derivatives (note 15)	–	–	–	6,691	6,691
Actuarial gain on retirement benefit obligations (note 7)	–	2,845	–	–	2,845
Total comprehensive income/(expense)	**21,096**	**2,845**	**15,005**	**6,691**	**45,637**
	24,305	(7,064)	925,818	(1,122)	941,937
Less payments made to HRH					
In respect of current year	(16,542)	–	–	–	(16,542)
In respect of prior year	(3,487)	–	–	–	(3,487)
Balance as at 31st March 2018 as originally presented	**4,276**	**(7,064)**	**925,818**	**(1,122)**	**921,908**
Change in accounting policy	–	–	1,907	–	1,907
Balance as at 1st April 2018 restated[1]	**4,276**	**(7,064)**	**927,725**	**(1,122)**	**923,815**
Net surplus for the year	21,036	–	4,372	–	25,408
Other comprehensive income/(expense)					
Net loss on revaluation of owner occupied property (note 9)	–	–	(241)	–	(241)
Net gain on revaluation of financial assets (note 11)	–	–	2,763	–	2,763
Gain on financial derivatives (note 15)	–	–	–	1,075	1,075
Actuarial loss on retirement benefit obligations (note 7)	–	(400)	–	–	(400)
Total comprehensive income/(expense)	**21,036**	**(400)**	**6,894**	**1,075**	**28,605**
	25,312	(7,464)	934,619	(47)	952,420
Less payments made to HRH					
In respect of current year	(18,018)	–	–	–	(18,018)
In respect of prior year	(5,187)	–	–	–	(5,187)
Balance as at 31st March 2019	**2,107**	**(7,464)**	**934,619**	**(47)**	**929,215**

1. See note 23.

Group statement of cash flows

	Notes	Year ended 31st March 2018 £'000	Year ended 31st March 2019 £'000
Cash generated from operating activities	16	18,369	21,246
Interest paid		(3,422)	(3,558)
Net cash from operating activities		14,947	17,688
Cash flows from investing activities			
Purchase of financial investments		(3,159)	(30,109)
Loans repaid		3,500	–
Investments in joint ventures		(2,629)	(628)
Proceeds from sale of associate		–	510
Proceeds from disposal of financial investments		2,026	1,422
Purchase of investment property		(1,141)	(1,436)
Property improvements and development expenditure		(11,168)	(15,514)
Proceeds from disposal of investment properties		6,254	9,310
Purchase of property, plant and equipment		(2,272)	(1,668)
Proceeds from disposal of assets held for sale		12,133	6,966
Financial investment income received		2,892	2,633
Interest received		427	18
Net cash inflow/(outflow) from investing activities		**6,863**	**(28,496)**
Cash flows from financing activities			
Proceeds from borrowings		45,132	105,676
Borrowings repaid		(40,000)	(75,000)
Payments made to HRH		(20,029)	(23,205)
Net cash (outflow)/inflow from financing activities		**(14,897)**	**7,471**
Increase/(decrease) in cash in the year		6,913	(3,337)
Cash and cash equivalents at start of year		4,132	11,045
Cash and cash equivalents at end of year	22	**11,045**	**7,708**

Duchy of Cornwall statement of cash flows

	Notes	Year ended 31st March 2018 £'000	Year ended 31st March 2019 £'000
Cash generated from operating activities	16	15,249	19,318
Interest paid		(3,294)	(3,330)
Net cash from operating activities		11,955	15,988
Cash flows from investing activities			
Purchase of financial investments		(3,159)	(30,109)
Loans repaid		4,000	500
Investments in joint ventures		(2,629)	(628)
Distribution received from QMS		322	426
Proceeds from disposal of financial investments		2,026	1,422
Purchase of investment property		(1,141)	(1,436)
Property improvements and development expenditure		(11,168)	(15,514)
Proceeds from disposal of investment properties		6,254	9,310
Purchase of property, plant and equipment		(499)	(826)
Proceeds from disposal of assets held for sale		12,041	6,966
Financial investment income received		2,892	2,633
Interest received		997	549
Net cash inflow/(outflow) from investing activities		**9,936**	**(26,707)**
Cash flows from financing activities			
Proceeds from borrowings		45,000	105,000
Borrowings repaid		(40,000)	(75,000)
Payments made to HRH		(20,029)	(23,205)
Net cash (outflow)/inflow from financing activities		**(15,029)**	**6,795**
Increase/(decrease) in cash in the year		6,862	(3,924)
Cash and cash equivalents at start of year		3,602	10,464
Cash and cash equivalents at end of year	22	**10,464**	**6,540**

YEAR ENDED 31ST MARCH 2019

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 2019.

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 86 to 87) and in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS as adopted by the EU) and International Accounting Standards Board's (IASB) 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, fair value through other comprehensive income 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.

IFRS 9 'Financial Instruments' replaces all phases of the financial instruments project and IAS 39 'Financial Instruments: Recognition and Measurement'. The standard introduces:

- new requirements for the classification and measurement of financial assets and financial liabilities;
- a gain or loss should be recognised in the profit or loss when a financial liability measured at amortised cost is modified without this resulting in de-recognition;
- a new model for recognising provisions based on expected credit losses; and
- simplified hedge accounting by aligning hedge accounting more closely with an entities risk management methodology.

The Group adopted IFRS 9 from 1st April 2018 and has retrospectively recognised the impact in the opening retained earnings in the current period.

Details of the transition are contained in note 23.

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 permits either a full retrospective or a modified retrospective approach for the adoption. The standard is effective for annual periods beginning on or after 1st January 2018.

In the current financial year, the Group adopted IFRS 15 Revenue from Contracts with Customers with effect from 1st April 2018. The Group has applied IFRS 15 using a modified retrospective approach and has not restated comparative information.

IFRS 15 does not apply to investment property rental income as this falls under the scope of IFRS 16 Leases. The standard applies to non-core revenue streams which include retail sales and revenue generated by subsidiaries. The impact of the adoption of IFRS 15 is immaterial on differences arising on the amount or timing of the recognition of revenue for the non-core income streams that fall under the scope and has an immaterial impact on the statement of comprehensive income.

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 statements about the leasing activities of both lessees and lessors. Under the new standard, an asset (the right to use the leased item) and a financial liability at the lease commencement date (to pay future rental payments) are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change. The standard replaces IAS 17 'Leases' and related interpretations.

In the current financial year, the Group, for the first time, has applied IFRS 16 Leases in advance of its effective date. The Group has applied IFRS 16 using the modified retrospective approach and has not restated comparative information.

The date of initial application of IFRS 16 for the Group is 1st April 2018, referred to as the transition date.

The Group has taken advantage of the following practical expedients under the modified retrospective approach:

- The Group used a single discount rate to portfolios with reasonably similar characteristics;
- The Group has excluded any initial direct costs from the measurement of the right of use asset at the transition date; and
- The Group has accounted for all leases of 12 months or less as short-term leases and has therefore not recognised a right of use asset on these leases.

1 ACCOUNTING POLICIES *(continued)*

The Group recognised right of use assets of £103,156 in property, plant and equipment and lease liabilities of £103,156 at the transition date. As the value of the right of use asset was equal to the value of the lease liability, there was no impact on the opening retained earnings on the transition date.

Details of the transition are contained in note 23.

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 and on foreseeable future transactions.

Significant judgements, key assumptions and estimates

Carrying value of loans and receivables

The Group tests loans and receivable financial assets annually 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.

Property assets held for sale

Judgement is taken to establish when to classify an investment property as an asset held for sale. The Duchy classifies investment properties as assets held for sale where their carrying amount is likely to be recovered principally through a sale transaction and a sale is considered highly probable within the next 12 months. Information on properties being openly marketed and the status of sale negotiations is used to aid the decision.

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, which 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 transaction price allocated to the performance obligations 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 it transfers control of a product or service to a customer.

Property income

This comprises rental income and premiums on lease surrenders on investment properties for the year, exclusive of service charges receivable. Rental income is recognised on an accruals basis over the lease term.

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 and control transfers to the customer. Sales are usually in cash or by credit card.

Income at J V Energen LLP

The Group has a subsidiary, 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.

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.

1 ACCOUNTING POLICIES *(continued)*

Deferred revenue

The Group recognises a liability for rental income received in advance from the leasing out of investment property. Deferred lease rentals are recognised as revenue on a straight line basis over the lease term.

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 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

The sale of property is recognised when the control has been transferred to the buyer, usually when legally binding contracts which are irrevocable and unconditional are exchanged, which is when legal title passes to the purchaser, on completion. 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

Leases – the Group as lessor

The Group has 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 on a straight line basis over the term of the relevant lease. 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.

Leases – the Group as lessee

Where the Group is a lessee, a right of use asset and lease liability are recognised at the outset of the lease.

The lease liability is initially measured at the present value of the lease payments that are not paid at that date based on the Group's expectations of the likelihood of the lease extension or break options being exercised. The lease liability is subsequently adjusted to reflect the imputed interest, payments made to lessor and any lease modifications.

1 ACCOUNTING POLICIES *(continued)*

The right of use asset is initially measured at cost, which comprises the amount of the lease liability, any lease payments made at or before commencement date, less any lease incentives received, an estimate of any costs expected to be incurred at the end of the lease to dismantle or restore the asset. The right of use asset classified as property, plant and equipment is subsequently depreciated in accordance with the Group's accounting policy on property, plant and equipment. The amount charged to the income statement comprises the depreciation of the right of use asset and the imputed interest on the liability.

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% to 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

Financial investments under IFRS 9 are now categorised as Fair Value through other comprehensive income and are measured at fair value with profits or losses on revaluation being taken to the Capital Account Statement of Comprehensive Income.

The Duchy recognises private equity and fixed interest securities as Fair Value through other comprehensive income as they are held to collect cash flows or to sell. The Duchy elected to recognise equity financial investments as Fair Value through other comprehensive income to reduce volatility in the income statement, this will result in no recycling through profit and loss. There is no change in the carrying amount of financial assets on transition to IFRS 9.

Consolidation

(a) 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 the 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.

(b) 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 basis. Inventory is presented net of provisions held for slow moving, obsolete or damaged items.

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.

1 ACCOUNTING POLICIES *(continued)*

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 the expected credit loss model. 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.

Upon renegotiation of a loan an assessment is made if the loan is modified or extinguished. Upon modification or extinguishment, any associated costs will be recognised in the capital income statement.

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 the relationship between hedging instruments and hedged items at the inception of the transaction, 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 31st March 2018 £'000	Year ended 31st March 2019 £'000
Property income:			
Agricultural income		8,111	8,175
Commercial income		15,569	16,023
Residential income		6,143	6,322
Total property income		29,823	30,520
Sale of goods		5,752	5,984
Total operating income		**35,575**	**36,504**
Staff costs	4	5,095	5,151
Charge to Capital Account		(897)	(967)
		4,198	4,184
Direct cost of sales		2,524	2,626
Depreciation	9	1,051	1,013
Repairs and maintenance		2,675	2,603
Administration		2,427	3,046
Other operating costs		676	634
Total operating costs		**13,551**	**14,106**
Operating surplus		**22,024**	**22,398**

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 her associates:

	Year ended 31st March 2018 £	Year ended 31st March 2019 £
Fees payable to the Duchy of Cornwall auditor for the audit of the Duchy and consolidated financial statements	79,820	102,220
Fees payable to the Duchy of Cornwall auditor and her associates for other services:		
The audit of QMS (Poundbury) LLP	5,560	5,730
	85,380	**107,950**

3 LEASING: OPERATING LEASES WITH TENANTS

The Duchy of Cornwall leases out all of its investment properties under operating leases with, on average, 65 years remaining to expiry. The aggregate minimum rentals, excluding contingent rents, receivable under non-cancellable leases are as follows:

	Year ended 31st March 2018 £'000	Year ended 31st March 2019 £'000
Less than one year	17,950	18,128
Between two to five years	63,788	62,588
After five years	315,246	304,867
	396,984	**385,583**

Leases with no fixed expiry date have been excluded from the detail above.

	Year ended 31st March 2018 £'000	Year ended 31st March 2019 £'000
Contingent rents receivable	**1,834**	**1,788**

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 108 (2018: 107). The split of staff was: Administrative 65, Estate workers 13, Nursery 23, Housekeepers 7 (2018: Administrative 67, Estate workers 13, Nursery 20, Housekeepers 7). The total remuneration for the Group was £5,151,000 (2018: £5,095,000) comprising:

	Group Year ended 31st March 2018 £'000	Duchy Year ended 31st March 2018 £'000	Group Year ended 31st March 2019 £'000	Duchy Year ended 31st March 2019 £'000
Wages and salaries	3,640	3,461	3,835	3,652
Social security costs	373	360	407	391
Pension costs	971	971	766	766
Other staff costs	111	111	143	143
	5,095	**4,903**	**5,151**	**4,952**

Staff costs of £967,000 (2018: £897,000) 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 31st March 2018 £	Year ended 31st March 2019 £
Alastair Martin	277,562	285,495
Jonathan Crow	3,000	3,000
Mark Thomas	8,000	8,000
	288,562	**296,495**

In addition, pension contributions of £38,625 (2018: £37,500) were paid into a Money Purchase Scheme for Alastair Martin.

5 FINANCE INCOME – GROUP

	Year ended 31st March 2018 £'000	Year ended 31st March 2019 £'000
Interest income from financial investments measured at Fair Value through other comprehensive income (OCI)	2,918	2,657
Bank interest	13	17
Loan interest	414	39
	3,345	**2,713**

6 FINANCE COSTS – GROUP

	Year ended 31st March 2018 £'000	Year ended 31st March 2019 £'000
Loan interest	**3,494**	**3,421**

Loan interest cost recognised for the year ended 2019 includes £243,000 (2018: £273,000) 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 2019. An actuarial valuation as at 1st January 2019 is under way.

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 which 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 which 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 31st March 2018 £'000	Year ended 31st March 2019 £'000
Fair value of assets at end of year	23,763	24,765
Present value of obligations at end of year	(28,901)	(30,066)
Net defined benefit obligation	**(5,138)**	**(5,301)**

Expense recognised in income statement

	Year ended 31st March 2018 £'000	Year ended 31st March 2019 £'000
Current service cost	493	340
Administration expenses	133	109
Operating expense	626	449
Net interest on the net defined benefit obligation	185	125
Total expense recognised in income statement	**811**	**574**

Reconciliation of value of defined benefit obligations over the year

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

	Year ended 31st March 2018 £'000	Year ended 31st March 2019 £'000
Present value of obligations at start of year	30,896	28,901
Current service cost	493	340
Interest cost	730	741
Distributions	(976)	(830)
Experience losses	246	89
Actuarial gains arising from change in financial assumptions	(1,818)	(268)
Actuarial (gains)/losses arising from change in demographic assumptions	(670)	1,093
Present value of obligations at end of year	**28,901**	**30,066**

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

Reconciliation of fair value of assets

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

	Year ended 31st March 2018 £'000	Year ended 31st March 2019 £'000
Fair value of assets at start of year	22,841	23,763
Employer contributions	883	811
Interest income	545	616
Return on Scheme assets excluding interest income	603	514
Distributions	(976)	(830)
Administration expenses and death in service premia	(133)	(109)
Fair value of assets at end of year	**23,763**	**24,765**

Movement in net defined benefit obligation over the year

	Year ended 31st March 2018 £'000	Year ended 31st March 2019 £'000
Net defined benefit obligation at beginning of the year	(8,055)	(5,138)
Employer contributions	883	811
Expense recognised in income statement	(811)	(574)
Remeasurement gain/(loss) recognised in OCI	2,845	(400)
Net defined benefit obligation at end of the year	**(5,138)**	**(5,301)**

Remeasurement effects recognised in other comprehensive income (OCI)

	Year ended 31st March 2018 £'000	Year ended 31st March 2019 £'000
Return on Scheme assets excluding interest income	603	514
Experience losses on obligations	(246)	(89)
Actuarial gains arising from change in financial assumptions	1,818	268
Actuarial gains/(losses) arising from change in demographic assumptions	670	(1,093)
Total gains/(losses) recognised in OCI	**2,845**	**(400)**

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

Actuarial assumptions at end of year

	31st March 2018	31st March 2019
Discount rate (p.a.)	2.60%	2.40%
Salary increases (p.a.)	4.40%	4.40%
RPI inflation (p.a.)	3.15%	3.15%
CPI inflation (p.a.)	2.15%	2.15%
Pension increases: RPI min 0%, max 5% (p.a.)	3.05%	3.05%
Post-retirement mortality (base table)	86% of S2PMA for males/ 80% of S2PFA for females	86% of S2PMA for males/ 80% of S2PFA for females
Post-retirement mortality (improvements)	CMI 2016 projections with a long-term trend rate of 1.50% p.a. for males and 1.25% p.a. for females (from 2008 onwards)	CMI 2017 projections with a long-term trend rate of 1.50% p.a. for males and 1.25% p.a. 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:	31st March 2019 £'000
Discount rate reduced by 0.25% p.a.	31,466
Discount rate increased by 0.25% p.a.	28,766
Salary increases increased by 0.25% p.a.	30,068
Salary increases decreased by 0.25% p.a.	30,064
Inflation increased by 0.25%* p.a.	31,266
Inflation decreased by 0.25%* p.a.	28,866
Life expectancy increased by approximately one year	31,166
Life expectancy decreased by approximately one year	28,966

* 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 as when calculating the defined benefit obligation.

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 which 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	5,430	–	5,430
Overseas equities	8,555	–	8,555
Index-linked gilts	5,556	–	5,556
UK corporate bonds: investment grade	5,105	–	5,105
Cash and net current assets	–	119	119
At 31st March 2019	**24,646**	**119**	**24,765**

	Quoted £'000	Unquoted £'000	Total £'000
UK equities	5,110	–	5,110
Overseas equities	8,411	–	8,411
Index-linked gilts	5,264	–	5,264
UK corporate bonds: investment grade	4,867	–	4,867
Cash and net current assets	–	111	111
At 31st March 2018	**23,652**	**111**	**23,763**

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 was in deficit on a funding basis at 1st January 2016, the date of the latest completed annual actuarial report. 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)	777
Average duration of the liabilities (years)	19
Expected future benefit payments (£'000):	
Year ending 31st March 2020	824
Year ending 31st March 2021	837
Year ending 31st March 2022	897
Year ending 31st March 2023	965
Year ending 31st March 2024	980
Five years ending 31st March 2029	5,438

The Duchy also contributes to defined contribution scheme arrangements, the charge for which was £347,000 (2018: £315,000).

8 INVESTMENT PROPERTY – GROUP

	Agricultural & Forestry £'000	Commercial £'000	Residential £'000	Development land £'000	Total £'000
At 1st April 2017	**405,069**	**266,089**	**194,807**	**46,696**	**912,661**
Additions	1,141	–	–	–	1,141
Capital improvements	2,572	450	2,443	14	5,479
Capitalised development expenditure	–	–	–	5,416	5,416
Transfer from/(to) property, plant and equipment – at fair value	–	–	568	(46)	522
Transfer from current assets held for sale	5,519	–	–	–	5,519
Transfer to investment property assets held for sale	(429)	–	(462)	(7,884)	(8,775)
Disposals	(1,986)	(361)	(46)	(1,953)	(4,346)
Net (loss)/gain from fair value adjustments on investment property	(165)	19,981	1,356	1,684	22,856
At 31st March 2018	**411,721**	**286,159**	**198,666**	**43,927**	**940,473**
Additions	41	1,391	4	–	1,436
Capital improvements	2,587	365	2,212	10	5,174
Capitalised development expenditure	–	–	–	7,968	7,968
Transfer to property, plant and equipment – at fair value	–	–	(256)	–	(256)
Transfer to investment property assets held for sale	(419)	–	(410)	(3,611)	(4,440)
Transfers between investment property categories	(665)	268	335	62	–
Disposals	(3,438)	–	(512)	(1,354)	(5,304)
Net (loss)/gain from fair value adjustments on investment property	(1,902)	11,084	720	(5,646)	4,256
At 31st March 2019	**407,925**	**299,267**	**200,759**	**41,356**	**949,307**

8 INVESTMENT PROPERTY – THE DUCHY

	Agricultural & Forestry £'000	Commercial £'000	Residential £'000	Development land £'000	Total £'000
At 1st April 2017	**405,069**	**258,257**	**192,940**	**46,696**	**902,962**
Additions	1,141	–	–	–	1,141
Capital improvements	2,572	450	2,443	14	5,479
Capitalised development expenditure	–	–	–	5,416	5,416
Transfer from/(to) property, plant and equipment – at fair value	–	–	568	(46)	522
Transfer from current assets held for sale	5,519	–	–	–	5,519
Transfer to investment property assets held for sale	(429)	–	(462)	(7,884)	(8,775)
Disposals	(1,986)	(361)	(46)	(1,953)	(4,346)
Net (loss)/gain from fair value adjustments on investment property	(165)	19,331	1,356	1,684	22,206
At 31st March 2018	**411,721**	**277,677**	**196,799**	**43,927**	**930,124**
Additions	41	1,391	4	–	1,436
Capital improvements	2,587	365	2,212	10	5,174
Capitalised development expenditure	–	–	–	7,968	7,968
Transfer to property, plant and equipment – at fair value	–	–	(256)	–	(256)
Transfer to investment property assets held for sale	(419)	–	(410)	(3,611)	(4,440)
Transfers between investment property categories	(665)	268	335	62	–
Disposals	(3,438)	–	(512)	(1,354)	(5,304)
Net (loss)/gain from fair value adjustments on investment property	(1,902)	11,085	720	(5,646)	4,257
At 31st March 2019	**407,925**	**290,786**	**198,892**	**41,356**	**938,959**

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. All significant development sites plus 20% by number of the remaining properties in the mainland rural estate are valued by Savills on a rotational basis. The balance of mainland rural estate properties are valued by internal valuers who are Royal Institution of Chartered Surveyors (RICS) Registered Valuers and 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, an RICS Registered Valuer, supported by the Duchy's Finance Director. All Isles of Scilly properties are valued externally by Savills. All of the London residential properties are valued externally by Cluttons. All of the urban commercial properties are valued externally by Avison Young. All valuations are in accordance with the RICS Valuation – Global Standards 2017 (incorporating the IVSC International Valuation Standards) (the "Red Book") and, if relevant the RICS Valuation – Professional Standards UK January 2014 (revised 2015).

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 which 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 EPRA's 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:

i) 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;

ii) 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;

iii) 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 in to 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 Estate 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 and 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	Decrease of 50 basis points
Agricultural	310,987	361,113	457,849
Other rural assets	26,070	27,099	28,222
Urban commercial	192,185	225,255	261,325
Rural commercial	61,873	65,531	69,787
Residential property	195,576	198,892	202,647

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	240,798	225,255	214,193

The fair values at the balance sheet date, valuation techniques, nature and, where meaningful, range of unobservable inputs are shown in the table below 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) – the Duchy

	Property type	Fair value at 31st March 2019 £'000	Valuation techniques	Unobservable inputs	Range of unobservable inputs (where meaningful)
Agricultural & Forestry	Agricultural	£361,113	Yield methodology	Rental values	–
				Capitalisation rate	Farms: 1.45% to 3.5% Bare land: 9% to 10%
			Adjusted sales comparison approach	Adjusted comparable vacant possession values	–
				Discount rate for terminal value	4.3% to 7%
				Estimate of period until vacant possession achieved	0 to 80 years (average 5 years)
	Forestry	£19,713	Adjusted sales comparison approach	Price per hectare	£2,471 to £49,420 (average £8,689) per hectare
	Other rural assets	£27,099	Yield methodology	Rental values	–
				Capitalisation rate	8% to 10%
				Discount rate for terminal value	8.5% to 12%
	Total	**£407,925**			
Commercial	Urban commercial	£225,255	Yield methodology	Rental values	Industrial: £63 to £97 psm Office: £245 to £700 psm Retail: £81 to £1,991 psm
				Capitalisation rate	Industrial: 4.8% to 6.5% Office: 3.3% to 5.1% Retail: 5.2% to 6.4% Other: 2.7% to 14.9%
	Rural commercial	£65,531	Yield methodology	Rental values	–
				Capitalisation rate	6.75% to 11%
	Total	**£290,786**			
Residential		£198,892	Yield methodology	Rental values	–
				Capitalisation rate	4% to 8%
			Adjusted sales comparison approach	Adjusted comparable vacant possession values	–
				Discount rate for terminal value	4.5% to 7%
				Estimate of period until vacant possession achieved, for short-term lets	0 to 19 years (average 0.9 years) Fair value £121m
				Estimate of period until vacant possession achieved, for long-term lets	0 to 163 years (average 38 years) Fair value £78m
Development land		£41,356	Discounted cash flow	Discount rate	7% to 8% (average 7.6%)
				Risk factor	0% to 55% (average 14.7%)
				Time to completion	< 1 year, to 26 years (average 11.7 years)

The variance to the Group property balance is £290,786 in commercial and £198,892 in residential relating to QMS (Poundbury) LLP investment properties.

9 PROPERTY, PLANT AND EQUIPMENT – GROUP

	Motor vehicles £'000	Plant and equipment £'000	Owner-occupied property £'000	Total £'000
At 1st April 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**
Year ended 31st March 2018				
Additions/improvements	31	1,964	277	2,272
Transfer to investment property	–	–	(522)	(522)
Fully written down – cost	(22)	(179)	–	(201)
Depreciation charge	(41)	(1,010)	–	(1,051)
Fully written down – depreciation	22	179	–	201
Revaluation	–	–	(671)	(671)
At 31st March 2018	**70**	**8,751**	**5,143**	**13,964**
At 31st March and 1st April 2018				
Cost/valuation	210	14,196	5,143	19,549
Accumulated depreciation	(140)	(5,445)	–	(5,585)
Net book value	**70**	**8,751**	**5,143**	**13,964**
Year ended 31st March 2019				
Additions/improvements[1]	76	1,257	335	1,668
Transfer from investment property	–	–	256	256
Fully written down – cost	(26)	(498)	–	(524)
Depreciation charge	(62)	(951)	–	(1,013)
Fully written down – depreciation	26	498	–	524
Revaluation	–	–	(241)	(241)
At 31st March 2019	**84**	**9,057**	**5,493**	**14,634**
At 31st March 2019				
Cost/valuation	260	14,955	5,493	20,708
Accumulated depreciation	(176)	(5,898)	–	(6,074)
Net book value	**84**	**9,057**	**5,493**	**14,634**

1. Included within Additions/improvements is an amount of £103,000 recognised on initial recognition relating to right of use assets on the transition date. During the year, a further £18,000 was recognised as right of use assets. The total depreciation charge on the right of use assets amounted to £22,000 for the year.

9 PROPERTY, PLANT AND EQUIPMENT – THE DUCHY

	Motor vehicles £'000	Plant and equipment £'000	Owner-occupied property £'000	Total £'000
At 1st April 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**
Year ended 31st March 2018				
Additions/improvements	31	191	277	499
Transfer to investment property	–	–	(522)	(522)
Fully written down – cost	(22)	(179)	–	(201)
Depreciation charge	(41)	(425)	–	(466)
Fully written down – depreciation	22	179	–	201
Revaluation	–	–	(671)	(671)
At 31st March 2018	**70**	**2,465**	**5,143**	**7,678**
At 31st March and 1st April 2018				
Cost/valuation	210	5,415	5,143	10,768
Accumulated depreciation	(140)	(2,950)	–	(3,090)
Net book value	**70**	**2,465**	**5,143**	**7,678**
Year ended 31st March 2019				
Additions/improvements[1]	30	508	288	826
Transfer from investment property	–	–	256	256
Fully written down – cost	(26)	(498)	–	(524)
Depreciation charge	(44)	(403)	–	(447)
Fully written down – depreciation	26	498	–	524
Revaluation	–	–	(241)	(241)
At 31st March 2019	**56**	**2,570**	**5,446**	**8,072**
At 31st March 2019				
Cost/valuation	214	5,425	5,446	11,085
Accumulated depreciation	(158)	(2,855)	–	(3,013)
Net book value	**56**	**2,570**	**5,446**	**8,072**

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.

1. Included within Additions/improvements is an amount of £62,000 recognised on initial recognition relating to right of use assets on the transition date. During the year, a further £18,000 was recognised as right of use assets. The total depreciation charge on the right of use assets amounted to £2,000 for the year.

10 INVESTMENTS IN JOINT VENTURES, ASSOCIATES AND SUBSIDIARIES

The Group has the following undertakings for the year ended 31st March 2019:

Name	Entity type	Principal activity	% of holding
QMS (Poundbury) LLP*	Partnership	Investment property	100
RP (Poundbury) LLP**	Partnership	Investment property	50
Poundbury Spa LLP**	Partnership	Spa operation	15
J V Energen LLP***	Partnership	Energy supply	54
Barrow Shipping Ltd***	Company	Biomethane shipping and marketing	15[1]
West Country Soil Improvements Ltd***	Company	Soil improver production and marketing	100

*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
1. 30% 31st March 2018

Investments in joint ventures

As at 1st April 2019, the Duchy owned 50% of the members' capital of RP (Poundbury) LLP.

	£'000
Balance at 1st April 2018	11,208
Net invested in year	917
Distributed in year	(1,055)
Share of loss	(2,000)
Balance at 31st March 2019	**9,070**

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 unaudited financial statements were produced for the year ended 31st March 2019. The aggregate assets, liabilities, revenue and results for RP (Poundbury) LLP were as follows:

	Year ended 31st March 2019 £'000
Assets	18,163
Liabilities	(23)
Revenue	–
Loss	**(4,001)**

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 VENTURES, ASSOCIATES AND SUBSIDIARIES *(continued)*

Investments in associates

As at 1st April 2019, the Duchy owned 15% of the members' capital of Poundbury Spa LLP.

	£'000
Balance at 1st April 2018	–
Net invested in year	766
Balance at 31st March 2019	**766**

Poundbury Spa LLP was incorporated on 16th February 2018 and commenced trading in May 2018. The latest management accounts were produced for the period ended 31st March 2019. The aggregate assets, liabilities and results for Poundbury Spa LLP were as follows:

	Year ended 31st March 2019 £'000
Assets	2,571
Liabilities	(243)
Profit/Loss	–

Investments in subsidiaries

	Year ended 31st March 2018 £'000	Year ended 31st March 2019 £'000
QMS (Poundbury) LLP	8,217	7,791
J V Energen LLP	650	650
	8,867	**8,441**

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 J V Energen LLP is the operation of an anaerobic digestion and biomethane injection plant.

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

The latest unaudited financial statements of QMS (Poundbury) LLP were produced for the year ended 31st March 2019. The revenue and results for QMS (Poundbury) LLP were as follows:

	Year ended 31st March 2018 £'000	Year ended 31st March 2019 £'000
Revenue	492	554
Profit	425	501

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

	Fair Value through other comprehensive income				Amortised cost	Total
	Equity securities Level 1 £'000	Fixed interest securities Level 1 £'000	Private equity funds Level 3 £'000	Equity securities Level 3 £'000	£'000	£'000
At 1st April 2017	**27,850**	**27,833**	**9,158**	**239**	**1,200**	**66,280**
Purchases	3,000	–	159	–	–	3,159
Sale proceeds	–	–	(1,655)	(9)	(362)	(2,026)
Loss on sale	–	–	(13)	–	(838)	(851)
Revaluation	(1,140)	(845)	(1,705)	(217)	–	(3,907)
At 31st March and 1st April 2018	**29,710**	**26,988**	**5,944**	**13**	–	**62,655**
Purchases	20,000	10,000	109	–	–	30,109
Sale proceeds	–	–	(1,420)	(2)	–	(1,422)
Revaluation	2,826	(425)	373	(11)	–	2,763
At 31st March 2019	**52,536**	**36,563**	**5,006**	**–**	**–**	**94,105**

The fair values of financial investments classified as Level 1 are based on quoted market prices on the 31st March 2019. 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 2019.

The amortised cost investment met 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 provided a return of 6% per annum until disposal.

During the year, the Duchy de-recognised £1,420,000 of its Level 3 financial investments when the constituent loans within the fund were repaid by the borrowers.

See note 23 for the impact of IFRS 9.

In the Duchy accounts, there is a receivable balance recognised at amortised cost with J V Energen of £4.6million (2018: £4.6million).

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:

	Year ended 31st March 2018 £'000	Year ended 31st March 2019 £'000
US Dollar exchange rate +/- 10bpt	**(397)/458**	**(358)/418**

The maximum exposure to the credit risk at the reporting date is the carrying value of the debt securities classified as Fair Value through other comprehensive income.

The carrying value of financial assets, including debt securities classified as Fair Value through other comprehensive income and cash deposits best represents the maximum exposure to counterparty risk at the reporting date.

12 TRADE AND OTHER RECEIVABLES

	Group 31st March 2018 £'000	Duchy 31st March 2018 £'000	Group 31st March 2019 £'000	Duchy 31st March 2019 £'000
Amounts falling due within one year:				
Trade receivables	3,420	3,292	4,419	3,972
Less provision for impairment of trade receivables	(144)	(144)	(163)	(163)
Prepayments	338	310	402	402
Accrued income	5,212	4,003	4,567	3,483
	8,826	**7,461**	**9,225**	**7,694**
Amounts falling due after more than one year:				
Other receivables	200	200	200	200
Amounts due from Group subsidiaries	–	6,150	–	5,650
	200	**6,350**	**200**	**5,850**

The Group's other receivables falling due after more than one year comprises £200,000 at 6% repayable at a date to be determined.

Amounts due from the Group subsidiaries comprise of two loans to J V Energen LLP, classified as loans and receivables under IAS 39 have now been categorised as amortised cost – £4.6million repayable in 2026 and £1.05million 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 2019 trade receivables of £3,384,000 (2018: £3,276,000) were past due but not impaired. The ageing analysis of these trade receivables is as follows:

	Group 31st March 2018 £'000	Duchy 31st March 2018 £'000	Group 31st March 2019 £'000	Duchy 31st March 2019 £'000
Under 3 months	2,659	2,238	2,509	2,439
3 to 12 months	506	506	517	492
Over 12 months	111	111	358	358
	3,276	**2,855**	**3,384**	**3,289**

As of 31st March 2019 trade receivables of £163,000 (2018: £144,000) 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 31st March 2018 £'000	Duchy 31st March 2018 £'000	Group 31st March 2019 £'000	Duchy 31st March 2019 £'000
At 1st April	164	164	144	144
Provision for receivables impairment	25	25	17	17
Net receivables written off as uncollectable	(45)	(45)	2	2
At 31st March	**144**	**144**	**163**	**163**

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.

The group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses trade receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of revenue over a period of 12 months before 31st March 2019 and the corresponding historical credit losses experienced within this period.

13 INVESTMENT PROPERTY ASSETS HELD FOR SALE – GROUP AND THE DUCHY

	31st March 2018 £'000	31st March 2019 £'000
At 1st April	26,624	16,455
Disposal	(13,880)	(8,280)
Capital improvements	29	6
Transfer to investment property	(5,518)	–
Transfer from investment property	8,775	4,440
Revaluation in year	425	620
At 31st March	**16,455**	**13,241**

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 31st March 2018 £'000	Duchy 31st March 2018 £'000	Group 31st March 2019 £'000	Duchy 31st March 2019 £'000
Amounts falling due within one year:				
Trade payables	8,614	6,885	6,391	4,785
Accruals	1,594	1,449	2,395	2,216
Social security and other taxes	899	899	1,395	1,395
Payments received on account	9,489	9,489	2,887	2,887
Rents paid in advance	4,173	4,173	4,343	4,343
	24,769	**22,895**	**17,411**	**15,626**
Amounts falling due after more than one year:				
Payments received on account	5,095	5,095	9,476	9,476
	5,095	**5,095**	**9,476**	**9,476**

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 1–5 years £'000	Over 5 years £'000	Total £'000
At 31st March 2019				
Borrowings	808	–	135,000	**135,808**
Transaction costs	–	–	(637)	**(637)**
IFRS 9 modification interest	–	–	(1,720)	**(1,720)**
	808	–	132,643	**133,451**
Interest rate swaps – cash flow hedges (Level 2)	–	–	769	**769**
At 31st March 2018 (restated)				
Borrowing costs	132	–	105,000	**105,132**
IFRS 9	–	–	(1,907)	**(1,907)**
	132	–	103,093	**103,225**
Interest rate swaps – cash flow hedges (Level 2)	–	–	1,602	**1,602**

15 BORROWINGS AND DERIVATIVE FINANCIAL INSTRUMENTS – GROUP AND THE DUCHY *(continued)*

Duchy

	Less than 1 year £'000	Between 1–5 years £'000	Over 5 years £'000	Total £'000
At 31st March 2019				
Borrowings	–	–	135,000	**135,000**
Transaction costs	–	–	(637)	**(637)**
IFRS 9 modification interest	–	–	(1,720)	**(1,720)**
	–	–	132,643	**132,643**
Interest rate swaps – cash flow hedges (Level 2)	–	–	769	**769**
At 31st March 2018 (restated)				
Borrowings	–	–	103,093	**103,093**
Interest rate swaps – cash flow hedges (Level 2)	–	–	1,602	**1,602**

The Duchy has an interest rate derivative designated into a cash flow hedge relationship on the bank loan facility totalling £30million. The notional amount of the interest rate derivative is £30million. As at 31st March 2019, a gain of £1,075,000 (2018: £6,691,000) was recognised in other comprehensive income in the Capital Account Statement of Comprehensive Income, in respect of the effective cash flow hedge relationship. This is classified as a Level 2 financial instrument measured at fair value on directly or indirectly observable inputs. During the year, two interest rate derivatives were terminated resulting in a total cost of £1.9million.

The bank loan of £30million is repayable in 2027 and 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 (rate of swap 1.397%).

On the 29th March 2019, the Duchy issued £105million of bonds maturing between 2059 and 2069 at fixed interest rates of between 2.68% and 2.73%. £75million was utilised to repay £75million of bank borrowings.

Valuation of interest rate swaps (classified as Level 2) is taken from counterparty bank.

The economic relationship between the hedged item (bank loan) and the hedging instrument (interest rate swap) as well as ineffectiveness (if any) is determined by using dollar-offset methodology. Under this methodology, a hypothetical derivative is constructed on designation date to model the change in the fair value of the hedged item. This is constructed without the inclusion of credit risk. The hypothetical derivative will therefore be constructed as a 'pay fixed GBP, receive floating GBP LIBOR' interest rate swap. Potential sources of ineffectiveness are change in the credit risk of Duchy or the counterparty to the interest rate swap (which management considers not material at year end) and movements in the starting value of the hedging instrument on the hedge relationship designation date due to the off-market rate of the interest rate swap. Ineffectiveness (if any) is recorded in profit or loss. The change in fair value of the hedging instrument of £0.7million and the fair value of the hedged item of £0.8million was used as the basis for recognising hedge ineffectiveness for the year.

To comply with the risk management policy, the hedge ratio is based on a GBP interest rate swap with a notional amount of £30million and a maturity date of 31st December 2027 to offset a GBP denominated bank loan of £30million with a maturity date of 31st December 2027. This results in a hedge ratio of 1:1 or 100%.

Assessment of hedge effectiveness is done at inception of the hedge, at each reporting date 31st March and upon a significant change in the circumstances affecting the hedge effectiveness requirements.

16 RECONCILIATION OF OPERATING SURPLUS TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	Group Year ended 31st March 2018 £'000	Duchy Year ended 31st March 2018 £'000	Group Year ended 31st March 2019 £'000	Duchy Year ended 31st March 2019 £'000
Net surplus on the Revenue Account	21,875	21,096	21,690	21,036
Net surplus on the Capital Account	20,234	19,828	4,882	4,372
Adjusted for:				
IFRS 9 effective interest	–	–	187	187
Bond transaction costs	–	–	(637)	(637)
Net gain on sale of associate	–	–	(510)	–
Depreciation	1,051	466	1,013	447
Impairment of financial assets	–	–	2,000	2,000
Dividend income on Fair Value through other comprehensive income assets	(2,918)	(2,918)	(2,657)	(2,657)
Net finance costs	3,067	2,369	3,366	2,616
Shortfall of pension charge over contributions	(72)	(72)	(237)	(237)
Net gain from fair value of investment property	(22,856)	(22,205)	(4,256)	(4,257)
Net gain from fair value of investment property held for sale	(425)	(425)	(620)	(620)
Net gain on property held for sale	(1,430)	(1,430)	(818)	(818)
Profit on disposal of investment property	(1,908)	(1,908)	(4,007)	(4,007)
Loss on disposal of financial investments	851	851	–	–
(Increase)/decrease in inventories	(194)	(23)	187	6
Decrease/(increase) in trade receivables	2,052	2,024	(898)	(731)
Decrease/(increase) in trade payables	(958)	(2,404)	2,561	2,618
Net cash inflow from operating activities	**18,369**	**15,249**	**21,246**	**19,318**

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 2019 there was £nil (2018: £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 £686,881 (2018: £662,287). As at 31st March 2019 there was £65,688 (2018: £nil) 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 £39,375 (2018: £30,309) for fees and commission and £87,561 (2018: £26,926) 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 2019 there was £1,740 (2018: £40,157) remaining payable to Mrs Elliot.

Key management personnel are individuals that have the responsibility for planning, directing and controlling the activities of the Duchy. For the year ended 31st March 2019, the Duchy of Cornwall made the following payments to key management personnel: Short-term employee benefits (salary) £1,387,000 (2018: £1,492,000); Post-employment benefits (retirement benefit plan contribution) £237,000 (2018: £412,000); Benefits £26,000 (2018: £26,000); Total £1,650,000 (2018: £1,930,000).

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

During the year the Duchy received £531,000 of interest on loans to J V Energen LLP (2018: £571,000). In addition, the Duchy leased an area of land to a Partnership for which a rent of £112,300 (2018: £112,300) 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 or assets remaining following dissolution of a company registered in Cornwall) of £868,000 (2018: £294,000) before allowing for ex gratia payments and other associated costs of £64,000 (2018: £198,000). Surplus receipts of bona vacantia by His Royal Highness are paid over to The Duke of Cornwall's Benevolent Fund; £132,000 (2018: £95,000) was paid during the year. At 31st March 2019, the Duchy retained £805,000 (2018: £134,000) within creditors to meet potential future claims from individuals statutorily entitled to estates which had previously passed as bona vacantia to His Royal Highness.

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 2019, the Duchy had Capital commitments of £4,803,000 (2018: £2,975,000) in respect of development and property improvement works and £2,396,000 (2018: £2,482,000) for the acquisition of financial investments.

20 FINANCIAL INSTRUMENTS – GROUP

	Note	Held at Fair Value through other comprehensive income (Capital) £'000	Amortised cost £'000	31st March 2018 £'000
Assets				
Financial assets	11	62,655	–	62,655
Trade and other receivables excluding prepayments and accrued income	12	–	3,476	3,476
Cash and cash equivalents		–	11,045	11,045
		62,655	**14,521**	**77,176**
Liabilities				
Trade and other payables excluding non-financial liabilities	14	–	(24,097)	(24,097)
Borrowings	15	–	(105,000)	(105,000)
Derivative financial instruments	15	(1,602)	–	(1,602)
		(1,602)	**(129,097)**	**(130,699)**

	Note	Held at Fair Value through other comprehensive income (Capital) £'000	Amortised cost £'000	31st March 2019 £'000
Assets				
Financial assets	11	94,105	–	94,105
Trade and other receivables excluding prepayments and accrued income	12	–	4,011	4,011
Cash and cash equivalents		–	7,708	7,708
		94,105	**11,719**	**105,824**
Liabilities				
Trade and other payables excluding non-financial liabilities	14	–	(19,192)	(19,192)
Borrowings	15	–	(135,000)	(135,000)
Derivative financial instruments	15	(769)	–	(769)
		(769)	**(154,192)**	**(154,961)**

20 FINANCIAL INSTRUMENTS – THE DUCHY

	Note	Held at Fair Value through other comprehensive income (Capital) £'000	Amortised cost £'000	31st March 2018 £'000
Assets				
Financial assets	11	62,655	–	62,655
Trade and other receivables excluding prepayments and accrued income	12	–	9,498	9,498
Cash and cash equivalents		–	10,464	10,464
		62,655	**19,962**	**82,617**
Liabilities				
Trade and other payables excluding non-financial liabilities	14	–	(22,368)	(22,368)
Borrowings	15	–	(105,000)	(105,000)
Derivative financial instruments	15	(1,602)	–	(1,602)
		(1,602)	**(127,368)**	**(128,970)**

	Note	Held at Fair Value through other comprehensive income (Capital) £'000	Amortised cost £'000	31st March 2019 £'000
Assets				
Financial assets	11	94,105	–	94,105
Trade and other receivables excluding prepayments and accrued income	12	–	9,500	9,500
Cash and cash equivalents		–	6,540	6,540
		94,105	**16,040**	**110,145**
Liabilities				
Trade and other payables excluding non-financial liabilities	14	–	(20,798)	(20,798)
Borrowings	15	–	(135,000)	(135,000)
Derivative financial instruments	15	(769)	–	(769)
		(769)	**(155,798)**	**(156,567)**

21 FINANCIAL RISK MANAGEMENT

A review of the Group's financial risks is set out in the Governance section on pages 42 to 43.

Market risk

All borrowings at floating rates are fully hedged by swap agreements. Sensitivity to currency exchange movements is 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	808	–	135,000	135,808
Net interest payable on swap	3,616	14,464	78,874	96,954
Trade and other payables	9,327	–	–	9,327
At 31st March 2019	**13,751**	**14,464**	**213,874**	**242,089**
At 31st March 2018	13,324	11,934	120,719	145,977

21 FINANCIAL RISK MANAGEMENT *(continued)*

The Duchy reviews the liquidity risk on a regular basis ensuring detailed forecasts incorporate all contractual obligations.

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 which 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.

22 CASH AND CASH EQUIVALENTS

Net debt consists of loans and other borrowings (both current and non-current), less current asset investments and cash and cash equivalents. Loans and other borrowings are measured at the net proceeds raised, adjusted to amortise any discount over the term of the debt. For the purpose of this measure, current asset investments and cash and cash equivalents are measured at the lower of cost and net realisable value.

Net debt is considered to be an alternative performance measure as it is not defined in IFRS. The most directly comparable IFRS measure is the aggregate of loans and other borrowings (current and non-current), current asset investments and cash and cash equivalents.

A reconciliation from the most directly comparable IFRS measure to net debt is given below.

	Group 31st March 2018 £'000	Duchy 31st March 2018 £'000	Group 31st March 2019 £'000	Duchy 31st March 2019 £'000
Loans and other borrowings	106,734	106,602	134,220	133,412
Less: cash and cash equivalents	(11,045)	(10,464)	(7,708)	(6,540)
Net debt	**95,689**	**96,138**	**126,512**	**126,872**

Reconciliation of liabilities arising from financing activities.

	Group 1st April 2017 £'000	Borrowings repaid £'000	Additional borrowings £'000	Interest and borrowing costs £'000	Group 31st March 2018 £'000
Borrowings	100,000	(40,000)	45,132	–	105,132

	Group 1st April 2018 Restated £'000	Non-cash flow effect of IFRS 9 adoption on opening balance £'000	Borrowings repaid £'000	Additional borrowings £'000	Interest and borrowing costs £'000	Group 31st March 2019 £'000
Borrowings	103,225	1,907	(75,000)	105,676	(2,357)	133,451

23 IMPACT OF THE CHANGES IN ACCOUNTING POLICIES

IFRS 9 has led to an assessment of how assets and liabilities are categorised. The table below summarises the classification and measurement of the Group and the Duchy's financial instruments accounted for under IFRS 9 as compared to IAS 39.

Classification and measurement	IAS 39 31st March 2018	IFRS 9 31st March 2019
Assets		
Financial assets Equity investments	Available for sale	Fair Value through other comprehensive income
Cash	Amortised cost	Amortised cost
Trade receivables, other receivables, amounts due from Group companies	Amortised cost	Amortised cost
Loans receivable	Loans and receivable	Amortised cost
Liabilities		
Trade and other payable, excluding provisions	Amortised cost	Amortised cost
Borrowings	Amortised cost	Amortised cost
Derivative financial instruments – used for hedging	Fair Value through other comprehensive income	Fair Value through other comprehensive income

The Duchy recognises private equity and fixed interest securities as Fair Value through other comprehensive income as they are held to collect cash flows or to sell. The Duchy elected to recognise equity financial investments as Fair Value through other comprehensive income to reduce volatility in the income statement, this will result in no recycling through profit and loss (see note 11). There is no change in the carrying amount of financial assets on transition to IFRS 9.

The expected credit loss model required under IFRS 9 to assess trade and intercompany receivables has not caused a material change in the timing or level of provisioning.

There is no impact to the hedge accounting with the hedge items being classified as effective under both IAS 39 and IFRS 9.

When a loan is modified under IFRS 9 a gain or loss is recognised in the profit and loss account. This is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate.

Impact on the financial statements

As a result of the changes in the entities accounting policy, prior year opening balances had to be restated. As explained in the note below, IFRS 9 was generally adopted without restating comparative information with the exception of certain aspects of hedge accounting. IFRS 15 has not resulted in any changes to the timing or value of revenue recognition. IFRS 16 has resulted in operating leases being brought onto the balance sheet.

23 IMPACT OF THE CHANGES IN ACCOUNTING POLICIES *(continued)*

The table shows the adjustments recognised for each individual line item. Line items that have not been affected by the changes have not been included.

Group

Balance sheet extracts	31st March 2018 £'000	IFRS 9 £'000	IFRS 16 £'000	1st April 2018 £'000
Non-Current Liabilities				
Borrowings	(105,000)	1,907	–	(103,093)
Reserves				
Capital reserves	927,435	1,907	–	929,342

Balance sheet extracts	31st March 2019 £'000	IFRS 9 £'000	IFRS 16 £'000	31st March 2019 £'000
Non-Current Assets				
Property, plant and equipment	14,539	–	99	14,634
Current Liabilities				
Lease liabilities	–	–	(100)	(100)
Non-Current Liabilities				
Borrowings	(132,456)	(187)	–	(132,643)
Reserves				
Revenue reserve available for distribution to HRH	3,610	–	(1)	3,609

Capital Account Statement of Comprehensive Income	31st March 2019 £'000	IFRS 9 £'000	IFRS 16 £'000	31st March 2019 £'000
Finance costs	–	187	–	187

Revenue Account Statement of Comprehensive Income	31st March 2019 £'000	IFRS 9 £'000	IFRS 16 £'000	31st March 2019 £'000
Operating costs	14,109	–	(3)	14,106
Finance costs	3,417	–	4	3,421

The total impact on the Group's retained earnings as at 1st April 2018 is to increase the capital retained earnings by £1,907,000. There has been no impact on the revenue retained earnings. The total impact of the new standards to retained earnings at 31st March 2019 is to decrease retained earnings in the Capital Account by £187,000 and to decrease revenue retained earnings by £1,000.

23 IMPACT OF THE CHANGES IN ACCOUNTING POLICIES *(continued)*

Duchy

Balance sheet extracts	31st March 2018 £'000	IFRS 9 £'000	IFRS 16 £'000	1st April 2018 £'000
Non-Current Liabilities				
Borrowings	(105,000)	1,907	–	(103,093)
Reserves				
Capital reserves	925,818	1,907	–	927,725

Balance sheet extracts	31st March 2019 £'000	IFRS 9 £'000	IFRS 16 £'000	31st March 2019 £'000
Non-Current Assets				
Property, plant and equipment	7,994	–	78	8,072
Current Liabilities				
Lease liabilities	–	–	(78)	(78)
Non-Current Liabilities				
Borrowings	(132,456)	(187)	–	(132,643)
Reserves				
Revenue reserve available for distribution to HRH	2,107	–	–	2,107

Capital Account Statement of Comprehensive Income	31st March 2019 £'000	IFRS 9 £'000	IFRS 16 £'000	31st March 2019 £'000
Finance costs	–	187	–	187

Revenue Account Statement of Comprehensive Income	31st March 2019 £'000	IFRS 9 £'000	IFRS 16 £'000	31st March 2019 £'000
Operating costs	–	–	(2)	(2)
Finance costs	–	–	2	2

The total impact on the Duchy's retained earnings as at 1st April 2018 is to increase the capital retained earnings by £1,907,000 – there has been no impact on the revenue retained earnings. The total impact of the new standards to retained earnings at 31st March 2019 is to decrease retained earnings in the Capital Account by £187,000.

Borrowings – refinancing

In 2017, the Duchy refinanced one of its borrowings to extend the maturity date and reduce the interest. The fixed interest payable on the loan decreased from LIBOR +1.4% to LIBOR +1.25%. In accordance with IAS 39 paragraph AG62, the modification of the loan terms was not considered to result in an extinguishment of the initial borrowings. At the date of the modification no loss was recognised in profit or loss. Instead, the Group discounted the cash flows of the modified borrowings at a revised effective interest rate which meant that the impact of the changes in cash flows was recognised over the remaining modified term of the borrowings.

Under IFRS 9, the cash flows of the modified borrowings must be discounted at the original effective interest rate. This would have resulted in the recognition of an immediate profit in profit or loss at the date of the modification of £1,900,000. As the Group has chosen not to restate comparatives in adopting IFRS 9, it has recognised an adjustment of £1,900,000 to decrease non-current borrowings on 1st April 2018. The interest charge has been amended to use the effective interest rate on the initial debt and has resulted in an increase in interest charge to the Capital Account of £187,289 for the year ended 31st March 2019.

Leases

The Group recognised right of use assets of £103,156 in property, plant and equipment and lease liabilities of £103,156 at the transition date. As the value of the right of use asset was equal to the value of the lease liability, there was no impact on the opening retained earnings on the transition date. In the Revenue Income statement, the depreciation of the right of use assets is £21,562 and a finance cost for the unwinding of the liability is £3,549. During the year, a further £18,000 of right of use assets has been recognised.

Treasury consents

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

- Authority for a £105million long-term borrowing facility and repayment of existing £30million and £45million facilities
- Authority to pay compensation for commercial property improvements of up to £500,000
- Authority for expenditure of up to £1,400,000 by way of a loan
- Authority for expenditure of up to £900,000 in respect of development promotion fees

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

- Authority for the sale of land for £952,000
- Authority for the sale of land for £1,242,664
- Authority for the sale of land for £3,870,133
- Authority for the sale of land and property for £632,500
- Authority for the sale of land and property for £740,000
- Authority for the purchase of land and property for £900,000
- Authority for expenditure of up to £550,000 on the construction of a new building
- Authority for expenditure of up to £660,000 on the construction of a new building
- Authority for expenditure of up to £700,000 on the construction of sewerage facilities
- Authority for expenditure of up to £1,260,000 on the construction of part of a new building
- Authority for expenditure of up to £4,200,000 on the construction of a new building

Alastair Martin
Secretary and Keeper of the Records

6th June 2019

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;
   - 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 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 and, together with explicit assurance that the loan is not being used to inflate the revenue surplus payable;
    - 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.

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 thirteen years.

Carbon performance summary

We have achieved a 60% decrease in overall carbon dioxide emissions since the baseline year, with an output of 198 tonnes carbon dioxide equivalent in 2018/19.

The rate of reduction has flattened over recent years, with a small decrease 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 was set to reduce GHG emissions by 60% against baseline by 2020. This target has been achieved this year. A further target will be established.

Carbon statement [1]	Baseline[2] tCO_2	2014/15 tCO_2	2015/16 tCO_2	2016/17 tCO_2	2017/18 tCO_2	2018/19 tCO_2
OPERATIONAL MANAGEMENT Offices, in-hand property						
Travel – business	132	113	101	96	102	89
Travel – staff commuting	52	64	69	64	58	61
Energy used in properties	225	26	16	29	14	8
Sub-total	**409**	**203**	**185**	**189**	**175**	**158**
TRADING ACTIVITIES Holiday lets, nurseries						
Travel – business	9	6	4	7	8	8
Travel – staff commuting	17	15	9	17	14	14
Energy used in properties	60	9	18	18	21	18
Sub-total	**86**	**31**	**31**	**42**	**43**	**40**
Total emissions	**495**	**234**	**216**	**231**	**218**	**198**
Total travel-related emissions	210	199	183	184	183	172
Reduction on baseline		5%	13%	12%	13%	18%
Total energy used in property emissions	285	35	33	47	35	26
Reduction on baseline		83%	84%	78%	83%	88%
Total emissions	**495**	**234**	**216**	**231**	**218**	**198**
Reduction on baseline		53%	56%	53%	56%	60%
ENERGY USED IN PROPERTIES						
Gas – gross		63	58	74	66	59
Emissions reduction[3]		-63	-58	-74	-66	-59
Gas – net		0	0	0	0	0
Electricity – gross		299	323	294	249	203
Emissions reduction[4]		-282	-309	-267	-239	-197
Electricity – net		17	14	28	10	6
Oil		17	19	19	25	20
Total		**35**	**33**	**47**	**35**	**26**

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.

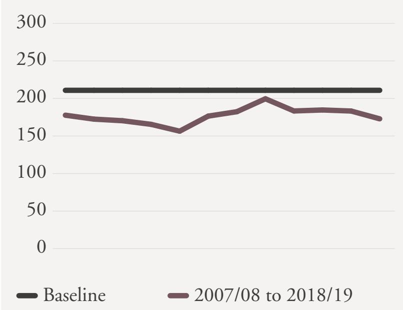
2 PricewaterhouseCoopers LLP provided assurance over the Duchy's 2008/09 carbon emissions data. The data for the baseline and all other years has not been subject to assurance. Assurance will be obtained in future either when there is a significant change in the assets and activities of the Duchy or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

Carbon performance summary

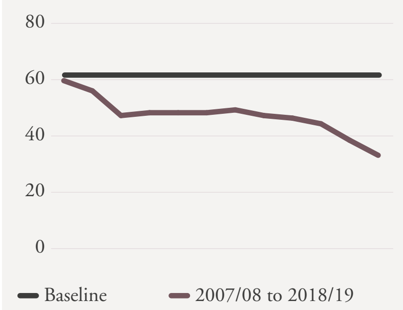
TRAVEL EMISSIONS (tCO_2e)



Decreased by 18% 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.

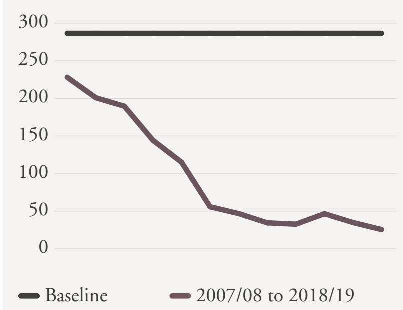
BUSINESS MILES (tCO_2e)



Decreased by 46% compared to baseline.

While there has been a very large reduction in emissions from properties, it is proving harder to reduce emissions from travel. The average gCO_2/km of cars driven by office-based staff has fallen from 167 in 09/10 to 133 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.

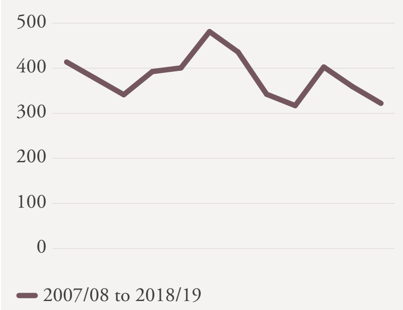
PROPERTY EMISSIONS (tCO_2e)



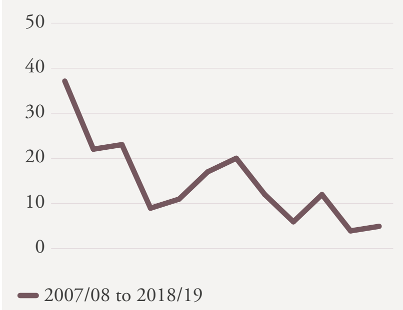
Decreased by 91% compared to baseline.

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. Offices at Princetown and Restormel are heated by biomass, and Hereford by ground source.

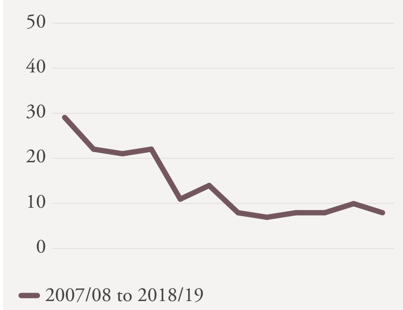
GAS (MWh)



ELECTRICITY (% brown by £)



HEATING OIL (litres, thousands)



The volume of gas consumed continues to vary. The proportion of non-renewable electricity used is very much reduced since baseline; usage relates to properties that come back in hand prior to our being able to switch supplies. 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 which use heating oil. All offices are either on mains gas or biomass systems.

Surface Area Report 31st March 2019

The Duchy of Cornwall is a landed estate of 52,759.7 hectares.

The extent and distribution of the major land holdings at 31st March 2019 were as follows:

	Hectares
Devon	28,421.6
Cornwall	7,579.8
Hereford	5,370.2
Somerset	5,250.4
Isles of Scilly	1,604.4
Dorset	1,326.2
Wiltshire	1,253.3
Gloucestershire	656.1
Shropshire	393.2
Kent	351.9
Nottinghamshire	287.6
Oxfordshire	120.3
Carmarthenshire	84.0
Vale of Glamorgan	19.6
Greater London	15.6
Buckinghamshire	15.4
Hertfordshire	6.0
Norfolk	2.2
Berkshire	1.5
Hampshire	0.4
Total	**52,759.7**

Dart Estuary

DUCHY *of* CORNWALL

INTEGRATED ANNUAL REPORT

Year ended 31st March 2019

www.duchyofcornwall.org

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Front cover image

The front cover shows one of the first purchasers of a new home on the "Duchy Field" development at Bletchingdon, Oxfordshire, greeting His Royal Highness on a visit to the estate in February 2019. Read more on page 27.

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9858675
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