22 December 2021

Caledonian Trust plc

(the "Company" or the "Group")

Audited Results for the year ended 30 June 2021

Caledonian Trust plc, the Edinburgh-based property investment holding and development company, announces its audited results for the year ended 30 June 2021.

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CHAIRMAN'S STATEMENT

Introduction

The Group made a pre-tax profit of £460,000 in the year to 30 June 2021 compared with a profit before tax of £95,000 last year. The earnings per share were 3.90p and the NAV per share at 30 June 2021 was 208.4p compared with earnings per share of 0.81p and NAV per share of 204.5p last year. The net valuation gain in the year was £690,000 compared to a net valuation gain in the previous year of £250,000.

Income from rent and service charges fell to £368,000 from £446,000 in 2020. The reduction is mainly attributable to the expiry of the licence for the car park at St Margaret's House, Edinburgh and one vacant unit at Scotland Street, Glasgow. Sales of five newly developed homes at Brunstane in Edinburgh and the sale of stock properties at Ardpatrick Estate generated turnover of £4,186,000 as described in the Review of Activities. Administrative expenses were £440,000 (2020: £428,000) and interest payable was £137,000 (2020: £29,000). The increase in the interest charge reflects the 3% margin over base being applied to a related party loan from Leafrealm Limited in accordance with its terms with effect from 1 July 2020.

During the year, an investment property was sold along with several stock properties, together comprising Ardpatrick Estate, in a single transaction. Ardpatrick was originally purchased in 2006 for £2,558,775, immediately realising £410,000 from the sale of one property and subsequently selling five refurbished cottages for total proceeds of £848,000 in previous years before the sale of the remainder this year for £2,700,000.

Review of Activities

The Group's property investment business continues but modified only by the sale of Ardpatrick Estate on 27 April 2021 for £2.7m in cash of which £1.2m was attributable to investment property and £1.5m to stock property.

The largest unit in our high yielding retail/industrial property at Scotland Street, Glasgow has been let from early next year to Deliveroo for their first "dark kitchen" in Scotland. We continue to hold our high yielding retail properties and North Castle Street offices, four Edinburgh garages, a public house / restaurant in Alloa and Belford Road / Bell's Brae, Edinburgh.

St Margaret's continues to be fully let at a nominal rent, presently just over £1.50/ft^2 of occupied space, to a charity, Edinburgh Palette, who have reconfigured and sub-let all the space to over 200 artists, artisans and galleries. Previously I reported that Edinburgh Palette gained two new and very different premises, the first at 525 Ferry Road in north central Edinburgh, just west of the Fettes College playing fields and near to the Western General Hospital, where a modern 125,000ft^2 grade A office building has been secured on favourable terms. This central site is served by eight bus routes and has 125 car parking spaces, 83 single offices and numerous open plan spaces. The second, quite different premise, is the Stanley Street Container Village where an innovative landscaped village including parks and communal grounds, is being assembled, using highly modified shipping containers, on a site leased until 2043 just north of Portobello golf course and about half a mile from the A1 and Brunstane rail station. Edinburgh Palette expect to provide community services and about 80 single studio units, primarily for local residents currently leasing spaces at St. Margaret's and for other creative groups and individuals. The container village was originally expected to open in the summer of 2019, but is now not likely to open until 2022. Edinburgh Palette recently secured another site in Granton where they are developing plans for affordable retail space, high quality studio and office spaces. St Margaret's continues with its high long-term occupancy level which has been largely unaffected by the impact of Covid-19.

Registers of Scotland did not renew the short-term lease of the car parking spaces at St. Margaret's when it expired at the end of October as their staff have been working predominantly from home since March 2020. Their return to the office in greater numbers is likely to be postponed as a result of the recent Covid-19 announcements.

We have appointed Montagu Evans to market St Margaret's House and we plan to launch the marketing campaign as soon as the current difficulties and restrictions on national and international travel for investors and developers are lifted. Already we have extensive interest from a broad spectrum of parties in advance of the formal market launch, including unsolicited offers.

We completed the construction of five new houses in the listed former farm steading on our site at Brunstane in July 2020 following the lifting of Covid-19 restrictions. The sales of all five properties have now completed, one in September 2020, one in November 2020, one in February 2021 and two in March 2021, all at prices in excess of their home report valuations, which itself was in excess of our budgeted figures, for a combined consideration of £2.66m or £360/ft^2. We commenced construction of the next phase of development at Brunstane comprising a further five new houses over 8650ft^2 forming the Steading Courtyard at the beginning of July 2021 with a construction programme of 12 months. We are closely monitoring supply chain shortages and have taken steps, where necessary, to secure materials in advance to avoid any disruption to the construction timetable. Apart from a few days delay in securing delivery of concrete for the foundations in early July no delays due to supply chain shortages have affected the programme as yet. The application for 11 new houses (c.20,000ft^2) in addition to the converted large farmhouse in the Stackyard field to the east of the steading continues very slowly through the planning process but it is now expected that consent to this phase will be obtained early next year.

At Wallyford we are currently finalising tender documentation and securing several minor but important variations to the planning consent for six detached houses and four semi-detached houses over 13,500ft^2 and expect to commence construction in late spring/early summer 2022, with a phased construction period over 12 months. The site lies within 400m of the East Coast mainline station, is near the A1/A720 City Bypass junction and is contiguous with a completed development of houses. Taylor Wimpey have completed the construction of over 500 houses nearby but on the other side of the mainline railway, which latterly sold at prices of around £250/ft^2 for smaller 3-bedroom end-terraced houses and £240/ft for larger detached houses. To the south of Wallyford a very large development of around 2,000 houses has commenced at St Clement's Wells on ground rising to the south, affording extensive views over the Forth estuary to Fife and on the eastern edge, Persimmon have completed a development of 131 houses. On an adjacent site Taylor Wimpey are constructing 80 houses which are being marketed at £280/ft^2 for smaller 3-bedroom semi-detached houses and £260/ft^2 for 4-bedroom detached houses which are selling very well. On the western side of St Clement's Wells, Barratts have sold all of the 245 three and four-bedroom houses in Phase 1 where semi-detached and terraced three-bed houses realised £221,000 or £242/ft^2. Barratts are currently building 106 three and four bedroom houses in Phase 2 of the St Clement's Wells site and 141 three and four bedroom houses on an adjoining site. The Master Plan for the St Clement's Wells development includes a primary school, separate nursery and community facilities, which opened earlier this year, and the new secondary school on an adjacent site is under construction. Planning consent in principle has been granted for another 600-800 new houses on the adjacent Dolphingstone site to the South-East. The environment at Wallyford, no longer a mining village, is rapidly becoming another leafy commuting Edinburgh suburb on the fertile East Lothian coastal strip.

The third of our Edinburgh sites is in Belford Road, a quiet cul-de-sac less than 500m from Charlotte Square and the west end of Princes Street, where we have taken up both an office consent for 22,500ft^2 and fourteen car parking spaces and a separate residential consent for twenty flats over 21,000ft^2 and twenty car parking spaces. This site has long been considered "difficult". To dispel this myth, we have created a workable access to the site; cleared collapsed rubble and soil; exposed the retaining south wall and the friable but strong bedrock in parts of the site; and completed an extensive archaeological survey. In consequence, the extent of the enabling construction works is much reduced compared to earlier estimates. Further investment in the site had been postponed, but we have now instructed architects to remodel the Belford Road façade and to reconfigure the internal layout with a more contemporary design to reflect current market requirements. The delay is not currently proving to our long-term disadvantage as prime locations in Edinburgh such as Belford Road have continued to increase in value more rapidly than the cost of construction.

The Company has three large development sites in the Edinburgh and Glasgow catchments of which two are at Cockburnspath, on the A1 just east of Dunbar. We have implemented the planning consent on both the 48-house plot northerly Dunglass site and on the 28-house plot, including four affordable houses, southerly Hazeldean site. The Dunglass site is fifteen acres of which four acres is woodland, but the non-woodland area could allow up to a further thirty houses to be built if the ground conditions, which currently preclude development, could be remediated.

Gartshore, the third largest development site, is within ten miles of central Glasgow, near Kirkintilloch (on the Union Canal), East Dunbartonshire, and comprises the nucleus of the large estate, previously owned by the Whitelaw family, including 130 acres of farmland, 80 acres of policies and tree-lined parks, a designed landscape with a magnificent Georgian pigeonnier, an ornate 15,000ft^2 Victorian stable block, three cottages and other buildings and a huge walled garden. Glasgow is easily accessible as Gartshore is two miles from the M73/M80 junction, seven miles from the M8 (via the M73) and three miles from two separate Glasgow/Edinburgh mainline stations and from Greenfaulds, a Glasgow commuter station. Gartshore's central location, historic setting and inherent amenity forms a natural development site. Accordingly, proposals have been prepared for a village within the existing landscape setting of several hundred cottages and houses together with local amenities. This would complement our separate proposals for a high-quality business park, including a hotel and a destination leisure centre within mature parkland.

The Company owns thirteen rural development opportunities, nine in Perthshire, three in Fife and one in Argyll and Bute, all of which are set in areas of high amenity where development is more controversial and therefore subject to wider objection, especially as such small developments, outwith major housing allocations, may not merit high priority. Thus, gaining such consents is tortuous, although such restrictions add value and for many of these rural opportunities, we have endured planning consents. Until very recently, the rural housing market had not been experiencing the rapid growth taking place in Edinburgh and Glasgow and in their catchment areas with values in regions such as Perth and Kinross, Fife and Argyll and Bute having risen over 12% in the past year, but with even more attractive immediate opportunities elsewhere no investment is proposed in the rural portfolio except to maintain existing consents or to endure them. The improvements being made to the A9, notably the completion of the dualling as far north as Birnam, continue to benefit most of our properties north of the Forth estuary with Ardonachie now 15 minutes from Perth; Balnaguard and Strathtay and Comrie 30 minutes; and Camghouran, a site for holiday houses, 90 minutes.

Economic Prospects

Economic prospects depend on the consequences of the economic upsurge evident until the beginning of December, prior to the spread of the Omicron variant – no ordinary recovery nor even a tidal rush, but a fast, high river bore, whose surge is hindered by weirs of economic debris deposited after so abrupt a retreat. Consequent upon the collapse of economic activity, due to the lockdown restrictions, the UK has had the deepest recession in the last 300 years, exceeded only between 1706 and 1709 when the War of the Spanish Succession was followed by a period of exceptionally cold wet weather, culminating in the Great Frost of 1709. The Bank of England's illustrative scenario in 2020 estimated a 14% fall in 2020 real GDP while the Office for Budget Responsibility (OBR) forecast a fall of 11.3%, an out-turn subsequently computed as 9.8%. The early 1700s economic recovery was very rapid as output was largely determined by the weather's influence on harvests and there was no long supply chain – containers of essential parts being shipped from the Far East. However, when the tide turned in 2020, a massive bore of demand swept up the economy, a surge of 17.7% Q3 on Q2 in 2020 and a second surge in 2021 of 5.5% Q2 on Q1.

The Bank of England is forecasting growth in 2021 to be 1.5% in Q3; and 0.8% in Q4; and 6.7% for the year. Most forecasters have similar 2021 forecasts – National Institute of Economic and Social Research (NIESR) 6.9%; OBR 6.5%; International Monetary Fund (IMF) 6.8%; and HM Treasury (HMT) 7.0%. At Q3 2021 GDP was 2.1% below the level achieved in Q4 2019 (GDP growth Oct – Dec 2019 was nil) when the coronavirus pandemic originated. If Q4 2021 growth is 0.8%, as estimated by NIESR, then at the end of 2021 GDP will be about 1.3% below the level before the pandemic struck. Growth forecasts for 2022 approach those for 2021: Bank of England 5.0% (reduced from 5.9% in August); OBR 6.0%; NIESR 5.3%; IMF 5.0% and HMT 5.6%. Unsurprisingly, such quite exceptional growth in demand has encountered supply problems, restricting output and causing inflation. Those supply problems are caused not only by the sudden resurgence of demand, but also by Covid related changes to the economy, the trading rearrangements necessary from Brexit and a reduction in the supply of energy, partly as a result of "green" policy, closing power stations and restricting investment in new supply. Consequently, the remarkable growth has been accompanied by a sharp rise in inflation (as measured by CPI) to 4.2% in October, up from 3.1% in September, and the Bank of England expects inflation to continue to rise from 4.25% in 2021 to 5.0% in April 2022, but to fall to 3.25% in December 2022 and to 2.25% and 2.0% thereafter. Independent forecasters, sampled by HMT, whose November forecasts were reached before the "shock" official October inflation figure was announced, are on average lower than the Bank at only 2.4% for 2021, but higher than the Bank thereafter, forecasting 4.0% in 2022 and 2.6%, 2.5% and 2.3% in subsequent years, all above the 2.0% current CPI target. The HMT November forecasts were partly conditioned by their forecast of Bank rate of about 0.60% in 2022, rising progressively to 1.73% in 2025. I consider that these forecasts, made before the Bank of England's November statement, are likely to be revised up.

The economic significance of inflation is not linear. It has a malign influence below a key minimum level and has a benign influence up to a maximum level, these levels being highly contentious and varying with the actual economic conditions prevailing. The upside and downside risks are asymmetric, as above the maximum level deleterious economic effects increase exponentially and may, in a few extreme conditions, lead to hyper-inflation, often followed by economic collapse.

The risks of inflation breaking the maximum safe level and rising exponentially are manifest, and past examples in the post-industrial era include France during the French revolution, where monthly inflation peaked at 143% and Hungary in 1946 when prices doubled over 15.6 hours; and similar grotesque inflation in Zimbabwe in 2008; Yugoslavia in 1994; Germany in October 1923 and Greece in 1944. Nor is the risk historic, as Venezuela, Lebanon and Argentina are all on the verge of such a hyperinflation. What these examples have in common is a "breakdown" in other areas of the economy, such as is caused by conflict or political or social factors. Fortunately, such conditions for hyperinflation are currently inapplicable in developed countries, but there is a maximum inflation rate, much lower than such hyperinflation rates, a "break point", that is considered the maximum that is benign and below the risks of inflation "escaping": a "Goldilocks" level.

No inflation is not beneficial and low inflation is probably not optimal. Economic growth is dependent on constant change and adjustment, and the attainment of political objectives, such as climate change or trading relationships, requires similar adjustments. In all cases economic resources are required to move: capital is redeployed and labour transfers from less productive jobs to more productive ones. Wages have a ratchet tendency – once they move up, they are extremely difficult to re-adjust down – and if the activity becomes less productive or prices have to be adjusted down to meet changed market conditions, such an adjustment is much more easily achieved if real wages are adjusted down by not rising with inflation. Such easier economic adjustment gives higher growth. Central banks with inflation policies are mandated to target inflation above zero, currently the Monetary Policy Committee (MPC) 2%, symmetrically, over an appropriate time horizon. The measurement of inflation used, CPI, is arbitrary and, although, adjusted as perceived necessary, it tends to overstate "inflation" by undervaluing the "quality" effects and utility of technological improvements, including, particularly, electronic devices: how much "value" is attributable to a smart phone, a computer with a telephone, compared to early models? Given such quality anomalies, the effective inflation target is probably lower than 2%.

The inflexion point where inflation becomes a net disbenefit has not been determined, but, self-evidently, it is not 2%. An argument against a modestly higher inflation level is that it becomes self-reinforcing i.e. "runs away", an argument relevant to the USA inflationary disasters of the 1970s. Then President Lyndon Johnson said of the classic theoretical economic trade-off between "guns and butter": "I believe we can do both … And as long as I am President, we can do both" sic! This unwise policy, followed shortly by two oil shocks, led to highly inflationary conditions which the Federal Reserve Bank failed to counteract because of political intimidation, an intrigue worthy of "House of Cards". President Richard Nixon's dirty tricksters (of Watergate fame?) promoted a smear story about the Federal Reserve Bank Chair, Arthur Burns, and Nixon refused to retract it until Burns promised looser monetary policy! This avoidable and unusual inflationary prelude is considered to have led to the establishment of an inflationary psychology in the US which, having been established, required a long brutal period of repression and recession to eliminate.

When the inflation genie (Arabic jinni, a magical creature of fire) is released from its confining bottle or lamp by rubbing with a mythical magic ring, he "escapes", evading recapture. The "Aladdins" controlling the central banks' "lamps" have been noticeably reluctant to use their magic ring, rather keeping their inflation levels at below those optimal for economic growth. Alan Greenspan's deputy, Princeton's Professor of Economics, Alan Blinder, strongly disputed the conventional view saying "The myth that the inflationary demon, "genie", unless exorcised, will inevitably grow is exactly that – a myth". He considered that at such inflationary levels the economic damage of joblessness was considerably more serious than a residual, if nugatory, risk of inflation, "labour unused in a year … would be lost forever". Indeed, the Bank of England research shows that a one percentage point increase in Base rate reduces output by "up to 0.6 per cent" after two to three years, implying destroying about 200,000 jobs. Low inflation rates, certainly too low inflation rates such as the current MPC mandate, do not optimise economic growth.

Where then is the "Goldilocks" compromise: the porridge not too hot and not too cold, and not fluctuating, except in a very short cycle – such changes as the Bank considers able to "see through"? Capital Economics considers "the costs" outweigh "the benefits" once inflation rises above 5% particularly in more developed countries. Because of the asymmetric nature of the risk, probably 3½% ± 1% is an appropriate target.

The level of interest rates is not, however, determined by that rate consistent with optimum economic growth or even one considered by the Bank necessary to maintain inflation stable within ±1%, but by that rate considered necessary by the Bank to keep to the arbitrary inflationary target. The original targeting required of the Bank, made in the wake of the 1970s inflationary disaster, was probably conservative – the influence of the then recent inflationary history may have weighed disproportionately on judgement. It is possible to posit a causal relationship between present target inflation rates and inflationary histories: in Germany (and EU subsequently) post the Weimar hyperinflation the target rate is very low; and in the US, where inflation rates in the 1970s were not so extreme as in the UK, target rates are both higher and more flexible. The outcome set as desirable is partly conditional on the historic inflationary setting, rather than the optimal rate.

Unfortunately, the UK target rate of 2% is lower than, or at the lowest margin of, a rate that optimises economic growth as the spectre of past 1970s inflation continues to haunt judgement. Capital Economics suggest that, while the current trade-off between lower inflation and economic growth is sub-optimal, the attitude of governments and central banks is shifting, following a decade in which deflation has posed a greater threat than inflation. For instance, the Federal Reserve Bank has already moved to an average inflation target and, in a break from the past, is putting more emphasis on full employment, part of its dual mandate. More radical changes to their policy frameworks are expected.

Change may also occur in the UK. Interestingly, there is now a more Machiavellian motivation to the targeting of higher inflation rates because of the Government's greatly increased borrowing. The higher the inflation rate the greater the erosion of the real value of debt, a consideration of particular value if accompanied by lower interest rates, which would be allowable if target inflation was higher, as these would reduce the cost of the Government's short-term debt, now a much larger proportion of Government debt following the Covid crisis measures. Such benefits hark back to the purpose of the Bank's creation in 1694 to raise money "for carrying on the War against France", and consequently, management of the Government debt, a function that became increasingly important and continued until this major function, debt management, was hived off to the newly created Debt Management Office ("DMO") in 1997 when the MPC was charged by Gordon Brown with the independent control of inflation. This marked a change from the use of fiscal (tax and spending) policy operated by the Treasury under the Chancellor to control the economy, with monetary policy (interest rates; open market policy) to be controlled by the Bank.

Debt management had been a central function of Government since WWI when debt as a percentage of GNP rose to nearly 200% and again to nearly 250% post WWII. Unfortunately, post WWI high borrowing and defence of the Gold Standard required high interest rates and severely crippled the economy until it was abolished in 1931. In contrast, post WWII the Treasury controlled monetary policy without the burden of the Gold Standard and interest rates were kept down, but inflation rose, often steeply. In consequence, real interest rates were negative for more than half the period 1945–80 during which the resulting high inflation allowed, according to Carmen Reinhart, most of the debt reduction to under 50% of GNP since WWII to take place with much lower real capital repayments, while low real current interest payments provided corresponding benefits.

Patently, while the opportunity to use inflation to reduce real debt in the 1945–1980 period was obvious, now a much less obvious route exists. A recent survey of the 18 largest UK gilt managers noted that the asset purchases Quantitative Easing (QE) by the Bank, which are designed to lower interest costs, closely followed the debt issued by the DMO: they surmised the purpose of asset purchases was to lower Government borrowing costs and cause inflation rates to be above interest rates, thus eroding the real value of Government debt. Such possible sleight of hand is rarely noticed, but the recent Bank of England Chief Economist warned of the risk of returning to the "fiscal dominance" implied by such policies (i.e. monetary policy being used for Treasury purposes) and Lord Mervyn King branded QE a "dangerous addiction". The Economist notes that "when debt is high temptation will always be strong". Yielding to such temptation is surely unthinkable: or is it? The "use" of inflation presents an interesting parallel: for labour, inflation allows the "painless" transfer of economic resources from lower productivity to higher productivity activities; for capital, it allows the "painless" transfer to capital from debtors to creditors. Magic, really!

Thus, strong forces bear on current monetary policy, which is already less constricting than previously. While the target inflation rate is 2%, the MPC's remit includes "supporting the Government economic policy" and, in recent years, to "depart from its target as a result of shocks and disturbances [to avoid] undesirable volatility in output … and vary the appropriate horizon for returning inflation to the target". In this context the MPC November report says "in recent unprecedented circumstances, the economy has been subject to very large shocks. Given the lag between changes in monetary policy and their effects on inflation, the Committee, in judging the appropriate policy stance, will as always focus on the medium-term prospects for inflation, including medium-term inflation expectation, rather than factors that are likely to be transient".

The MPC's reaction to the recent surge in inflation and in particular the maintenance of Base Rate at 0.1% in November was shaped by an increased emphasis on managing the economy as it reports "Looking beyond the coming months, the Committee will, as always, contrive to focus on the medium-term prospects for inflation".

The short-term factors are caused primarily by the obstacles, detours and restrictions to the passage of the economic upsurge or "bore" consequent upon recovery from the major recession. Economic difficulties have been augmented by the end of Britain's transitional membership of the EU Single Market and Customs Union on 31 December 2020. The anomalous position of N.I. restricts trade and seems difficult to solve. Tariff Free trade has been agreed with the EU, but is encumbered by many non-tariff restrictions such as VAT rules, sanitary and phytosanitary certification and, overreachingly, by "delay", some politically "manufactured", which incurs additional costs, especially for perishables, fish, harvested crops, nursery stock and animal products as shelf life is reduced and wastage increased. Many such problems may be circumvented, or new trade routes established, leaving a small residue of higher costs and, regrettably, at times unviable enterprises.

Short-term imbalances between supply and demand increase prices. Demand may surge but supply is necessarily slower as it may require the re-opening of facilities and their repair, stocking and manning. Many products, even “simple” goods, are assembled from a whole range of parts and from different suppliers, the delay of any one of which will hold up the end product. A complex good, a car, has thousands of components but is not a car without that vital bit, however small: no electronic chip, currently in short supply, no car! Such components not only have to be manufactured, but they have to be delivered and the surge in demand has led to a shortage in and long lead times for shipping containers, costing up to ten times more, and a further delay in delivering the goods because many container delivery ships queue for days in overcrowded ports, especially in China and the USA. Causing separate transport delays, HGV drivers have become scarce, delaying deliveries, as many foreign drivers have not returned or are not able to return because of UK immigration rules, but significantly, because there is a backlog of 40,000 HGV drivers awaiting certification due to Covid related staff shortages. This delay may only be one instance of a more general cause of “shortage” – the necessary poor productivity of some types of staff “home working” or, as alternatively put, “living at work”! Additionally, Covid has caused premises to close because of quarantine, also interrupting supply. Truly, there are many present causes of insufficient supply, leading to higher prices.

Clearly most of these supply shortages will prove short lived and any resulting current inflationary influence eliminated; ports will be cleared; containers freed up; drivers trained; Covid closures reduced if not eliminated and alternative supply routes and suppliers gained – the inflation derived from those shortages will be eliminated as recent history demonstrates: the driver induced petrol crisis is soon forgotten; and on what supermarket shelf is a reasonable supply of EU fruits and vegetables not available? Supply disruptions have caused significant price increases but, as supply and demand adjust, most of such bottlenecks will be eliminated, no longer causing inflation.

A major source of inflation lies elsewhere. The Bank’s forecast of a 4.3% rise in CPI in 2021, includes 1.25 percentage points attributable “Energy prices – direct contribution to CPI inflation”, falling next year to ¾ of a percentage point and nil in 2023 and 2024 as energy prices stabilise at current levels. The probable continuance of such elevated energy prices is exhibited by the five-year futures price of Brent crude oil which was of $72.890 on Friday 26 November having just fallen from nearly $90 before the Covid Omicron variant was identified. Prices of all quoted energy supplies have risen 50% or more over a year, with Coal rising 175% and Natural Gas 92%.

The economic damage caused by energy price rises is partially self-induced, resulting from implementing “green” policies, primarily related to climate change, including anti-nuclear sentiment – ironically, surely the most green and nil carbon emitting electricity generating policy possible! The UK’s almost entire switch from its coal power generation has increased its reliance for base load generation on gas and on wind power, a variable energy source, manifestly unsuitable for meeting base load requirements. Thus, when the wind does not blow the UK becomes, as the Economist says, “painfully dependent on natural gas imports, especially in calm weather”. Because of the calm weather and because UK gas storage has been reduced to 2% of annual demand from 30%, gas has had to be imported at the current high spot price. This huge gas price increase has been directly felt in the consumer market and following the collapse of numerous unhedged suppliers, their consumers are now being subsidised by the Government.

The UK has endorsed the EU’s carbon emissions – trading scheme which has increased the cost of energy stored in fossil fuels, particularly, coal, the cheapest energy resource. These fossil fuels are vast stores of photosynthetically derived energy formed as a result of one of many biological interventions in the climate, including the current one. The climatic influences of life has an epochally long tradition, each one as different, as “earth shattering”! Common to all such cases is quantum – changes resulting from unimaginably large numbers and long periods. The current “green” crisis arises as the product of the population number and of each individual’s contribution – an effective control would be to reduce numbers – population control, – but advice on such behaviour is muted, presumably being too direct!

The world has experienced several biologically induced transformations traceable back for more than 2.5 billion years. Then, quite “shockingly”, the atmosphere was almost all greenhouse gases, predominantly methane and CO_2, and some nitrogen but no oxygen. This atmosphere resulted from the physiology of the then existing organisms who processed and used the energy stored in inorganic chemicals producing carbon based by-products, particularly methane (CH_4) and CO_2. The world was extremely hot! Then, about 2.4 billion years ago, "the great oxidation event" occurred when "plants" harnessed the sun's radiant energy by photosynthesis. They stored the radiant energy in carbon based organic chemicals – sugars – the carbon being derived from the atmospheric CO_2 and the oxygen released into the atmosphere. The previously dominant bacteria like methane producing organisms were largely replaced. Photosynthetic activity replaced the super-heating carbon gas-based blanket, substituting oxygen. The climate reversed and a deep ice age, extending as far as the equator, became established. The resulting high levels of oxygen, an active chemical which allows a rapid release of energy by "burning", permitted the evolution of intensive energy consuming life forms such as animals. Subsequent evolutionary progress led to the development of land plants that used photosynthesis both for the storage of energy rich carbon for use physiologically but also photosynthetically produced carbon based supporting structural elements such as lignin, a type of polymerised sugar (wood!). Earlier examples included giant club mosses, cycads and tree ferns, culminating in evolution of the flowering plants, including trees. As these "ligneous" elements were resistant to digestion by herbivores, they remained unconsumed and, under certain conditions, undecomposed. But these undigested plant remains stored vast amounts of carbon, so great that the benign carbon warming gases (as they were then – how things changed) were reduced and temperatures fell. Now, another life activity is releasing those vast stores of carbon energy reserves by oxidising them; the latest change in more than 2.5 billion years of fluctuations in atmosphere and temperature.

The preliminary costs of green policies are just an "amuse-bouche" - a gross tasting menu follows. The climate change committee estimate the cost of the UK's policy as £1.3 trillion spent mostly over the next 20 years, peaking in 2027, with meaningful savings (e.g. lower heating bills) starting in the 2040s with a net cost after future, but undiscounted to present value, savings of £991 billion. The method of, the timing of, and the responsibility for achievement of environmental gain is in danger of becoming a shibboleth like "mom and apple pie", unquestionable, universally held and supported because "they", the Government, someone else, is going to deliver its benefits, but is free for "them", the proponents. Like many virtues it is more observed in aspiration than in execution. For example, the taxable cost of vehicles going "green" is about £30 billion per year but in a survey only 37% of even those with "green" credentials support road taxes to replace that lost tax revenue. On this survey the Economist comments: "Treasury insiders fear that, along the path to net zero, public enthusiasm will evaporate". That the rise in fuel duty, due to be increased yearly unless countermanded, has been frozen at 57.95p since 2011 illustrates the scale of the political cost of increasing carbon taxes.

The political hurdle of paying for "Green" will prove very high. The current estimate of "greening" is surely suspect as it is produced by an organisation with an inherent interest in its fulfilment. Even more importantly, it embraces obscure technical aspirations, assumes complex technological advance and is vast. What Government programme embracing any one of these complex variables ever delivered on time and on budget!? Certainly not HS2, the Channel Tunnel, the NHS IT system, Test and Trace, the Edinburgh tram system or the Scottish Parliament whose £40 million budget ballooned to £414 million. The Scots have an appropriate expression: "Nae chance". But what will be the actual cost – at least three to five times more – so, why is it mainstream policy? Possibly, because it is "good", particularly as "someone else" is to pay for it. Deleterious atmospheric changes are undeniably occurring but how, when, by whom and to what extent they should be countered, appear taboo questions, heresies in a settled faith. Unfortunately, for faith, as for intuition, the nobel laureate, Daniel Kahneman comments, "intuition [and faith] feels just the same when its wrong as when its right, that's the problem". The proper concern for climate change is causing a reflex action, which, while honourably intended, will not necessarily achieve the optimal balance of advantage or the optimum method of the achievement.

Intuitively, it is "right" to mitigate conditions that damage the world, but the UK's moral leadership has a disproportionate economic cost. Fossil fuels account for 83.1% of all energy consumption. The UK's consumption of all fossil fuels in 2020 was 1.12% of world fossil fuel energy consumption. The UK's total elimination of fossil fuel use in 2019 would have reduced world consumption of fossil fuels then by 1.24%.

The insignificance of the UK's expensive mitigation of fossil fuel use is highlighted as the UK's actual fossil fuel savings in 2019 compared to 2018 (2020 is distorted by the recession) of 0.26 exajoules (an exajoule equals 1 joule x 10^{18}) is wholly insignificant compared to China's increase from 116.60 exajoules in 2018 to 120.64 exajoules in 2019, a 4.04 exajoules increase in one year.

The UK's economy is also damaged by ill-considered policy measures, presumably based on the importance of "green" at whatever costs – whatever it takes! An exceptionally ill-considered "green" policy has been applied to electric power generation. All UK coal using power stations have been closed, wind sources greatly expanded and the storage of gas reduced to 2% of annual requirement from 30%, making the UK depend on gas bought on the spot market to meet fluctuations in demand.

This year the UK experienced the longest period of calm weather in 30 years and wind supplies fell 15% on average, increasing the need for gas generation. The recovery of the world economy has greatly increased the demand for gas and without reserves gas prices have soared from 30p to 130p per therm. Consequently, unnecessary economic costs fall on consumers, Government by subsidy, and on business, resulting in plant closures and consequent shortages of essential supplies (e.g. CO_2) stoking inflation. Continuation of the "full frontal" approach to climate change will be much more damaging than one aimed to achieve the maximum return or lowest cost per degree of saving. Keynes put this proposition more succinctly: "It is not sufficient that the state of affairs which we seek to promote should be better than the state which preceded it; it must be sufficiently better to make up for the evils of transition".

There are many energy saving policies that are either simple or achieve high returns without far-reaching deleterious effects. For instance, energy wastage in US industry is estimated to be up to 50% in spite of often being self-financing in areas including heat recycling, insulation, lighting, product development and building and machinery design. Similarly, obvious self-financing consumer savings, universally applicable, include lighting, insulation and design. In addition to such carrots the stick of increased prices is an immediate and effective method of reducing consumption. The freezing of fuel duty since 2012 continues to create the reverse incentive. The use of such short-term, high return measures could produce cheaper results while other technologies are developed, such as cheaper nuclear power, fusion or fission, sky radiation reflections, CO_2 storage and the emission reduction or oxidation of methane, the most damaging of all the radiation reflecting gases. Most importantly, time might allow resolution of the most important limit to global warming: others don't share our concern or they rather would not bear the cost. In spite of great cost, the UK will achieve little benefit while China's and Russia's policies add to the problem more quickly than others solve it, or share the Secretary General of OPEC, René Ortiz's, view of the Gulf state oil companies "[who] don't care about the political pressure to reduce emissions".

Unfortunately, "green" abhorrence of OPEC's apparent indifference flies in the face of reality. Oil and gas currently provides 55.9% of all world energy needs and 76.9% of energy needs, if coal, the most damaging of fossil fuels, is excluded. Moreover, even given the present "green" policy, the continuing world economic expansion will result in global oil demand continuing to increase each year for the next five years, if only by small amounts, or about 5% cumulatively (BP Annual Report 2021). Without an economic paralysis, reliance on energy supply of those magnitudes can only be changed slowly. But even on a smaller scale it would be counter- productive to burden the UK's economy by reducing UK's fossil fuel outputs while those outputs are replaced elsewhere.

The UK's current focus on its moral role in world climate control could be expensive and inflationary. Green policies will certainly raise energy prices and inflation to an uncertain degree on a continuing basis as more expensive energy sources replace cheaper ones. Such discretionary self-imposed policies are likely to be complemented by the exogenous factors of worldwide supply and demand. Demand for energy is directly related to economic growth and is forecast to continue to increase the demand for oil and gas, independent of "green" savings. However, arbitrary supply restrictions will increase the OPEC+ share and seem likely to increase prices. Thus, I do not share the Bank's view that, while energy prices contributed 1¼% inflation in 2021 out of an estimated total 4¼%, they will reduce to nil in 2023. Rising energy prices are one of many macrotrends pointing to higher inflation and include, particularly, the diminution of the overhang of China's cheap labour, the increasing world trade barriers, especially due to the US / China decoupling, and changing demographics, reducing the labour force as a percentage of the whole population in Western economies. However, past inflationary forces have largely been exorcised by increased labour flexibility and the changed balance of power and inflationary expectations are lower. These changes limiting inflation are being constantly reinforced by new technologies, including the yet unfulfilled promise of the digital age, and by some public and political improvement in economic understanding. Such factors will contain inflation below the maximum safe “Goldilocks” level and above the currently held 2% target.

I consider real interest rates will be negative with the consequent benefits for investors and debtors, especially the Government, and asset prices, including house prices, are likely to be supported. It would be economically beneficial if inflation rates were covertly allowed to rise to, say, 3.5%, while Bank Rate was maintained at a lower level and, while such an overt policy change seems too removed from current conventional thinking to be likely, a covert move which allowed higher inflation rates without affecting Bank Rate, as seems to be US practice, could be implemented and would be beneficial. Encouragingly, the Bank forecast Bank Rate to remain at 1% for the next three years except briefly in 2023.

The Scottish economy is very largely dependent on the UK economy and will benefit similarly from the relatively benign economic prospects forecast. However, two shadows fall on the Scottish economy. The oil and gas industry represents a disproportionately large percentage of the Scottish economy and its likely further contraction as evidenced by the probable denial of the licence at Cambo off Shetland, would be most unfavourable. In Scotland the pivotal influence of the Green Party on economic policy extends damagingly into so many areas of productive investment, including, particularly, transport: is it just too simple to observe that its current opposition to road improvements will be rendered entirely redundant as soon as electrically powered vehicles predominate?

The Scottish economy has continued to deteriorate in relation to the UK’s. Lack of growth has resulted in Scotland’s tax revenue falling £190m below the level it would have received through the previous block grant, a shortfall estimated by the Scottish Fiscal Commission to rise to £417m in five years. The threat of independence continues to damage the Scottish economy, relocating or diverting resources, investment and personnel. It is a masterpiece of political skill that the party that bemoans the trade tragedy of Brexit should ardently seek to embrace a much greater trade tragedy through Scexit! If the Irish border is difficult to surmount, then Hadrian’s Wall, even dilapidated, is unscalable. It is entirely proper for Scotland to choose political preference over economic advantage, provided the costs are not hidden. But such a trade has a very long, very expensive and very unfruitful tradition.

Property Prospects

In the previous investment cycle the CBRE All Property Yield peaked at 7.4% in November 2001, fell to 4.1% in May 2007 before rising to 7.8% in February 2009, a yield surpassed only very briefly since 1970, when the Bank Rate was over 10%. Subsequently, yields fell to a low of 5.3% in August 2017 then rose again over three years to an estimated 5.9% in September 2020, and have now fallen slightly to 5.8%.

This year Savill’s prime yields have risen in four of their 14 identified sectors and are unchanged only for South East Offices and Foodstores at 5.50% and 4.50%, but last year’s rise in yields for High Street Retail and Shopping Centres and both Leisure categories, Parks and Pubs, has been extended with rises of up to 0.5% points. Significant falls in yield of 0.75% points have occurred in Retail Warehouses and in both Industrial Distribution and Industrial Multi-lets, all probably reflecting the continued move away from the High Street Retail to Warehouses and Online delivery services.

The All Property yield peaked at 7.8% in February 2009, during the Great Recession, 4.6 percentage points higher than the 10-year Gilt, the widest “yield gap” since the series began in 1972 and 1.4 percentage points above the previous record in February 1999. The 2012 yield of 6.3% marked a new record yield gap of 4.8 percentage points, due largely to the then exceptionally low 1.5% Gilt yield. The yield gap fell to a low of 3.3 percentage points in 2014, but rose steadily to 4.1 percentage points in 2018, due largely to a fall in the 10-year Gilt yield, and rose further to 4.8 percentage points in 2019 and again in 2020 to 5.6 percentage points. This year, due to a 0.6% rise in the 10-year Gilt yield to 0.7%, the yield gap has fallen back to 5.0 percentage points. The inconsistency in the yield gap is reflected in the absence of an obvious connection between inflation and yields. Since 2009, Savill’s prime property yields have varied very little within the range of about 4.75% to 5.75% while inflation (CPI), falling from a peak of just over 5% in 2008, has moved since then between plus 3.00% and slightly negative. Over the same period the spread in yields between secondary and prime properties has narrowed consistently by almost 1.0 percentage points.

The All Property Rent Index, except in 2003, rose consistently from 1994 to 2009 when it fell by 12.3%. Immediately following the Great Recession there were three small annual increases totalling 1.6%, but subsequently rental growth averaged, 3.6% in the five years to 2017, reducing to 0.8% in 2018, but have fallen subsequently. In 2019 a fall of 0.1% was caused by falls of 3.8% for Retail Warehouses and 4.9% for Shopping Centres, these last two sectors having had the worst performance in the previous year. The pattern was repeated in 2020 as a fall of 2.1% in All Property Rental values resulted from Retail falls of: Standard Retail 6.0%; Retail Warehouses 4.2%; and Shopping Centres 10.8%, followed in 2021 by 0.7% as a result of further retail falls of: Standard Retail 7.0%; Retail Warehouses 3.1%; and Shopping Centres 9.1%. These losses were only partially offset by a 3.9% rise in industrial rents.

In the 12 months to October 2021 capital values have risen slightly by 2.3%, but have fallen 15% for Shopping Centres, and 7% for Standard Retail, and are virtually unchanged for Retail Warehouses, but Industrials have risen again this year by 12%. However, a more insidious continuing fall has been the erosion of real value by inflation, as since the market peak in 1990/1991 the extended CBRE rent indices, as adjusted by RPI inflation, have fallen by: All Property 40%; Offices 41%; Shops 40%; and Industrials 29%.

It is no consolation for the current falls in capital values that in the 24 months following the beginning of the Great Recession All Property capital values fell by an astonishing 44%.

Fortunately, forecasts for 2022 and for the years up to 2025 are better. The Investment Property Forum ("IPF") averaging the results of 23 surveys which vary significantly among them. For example, the All Property return for 2022 showed a difference among individual forecasts of 3.25% to 18.50%! Forecasting is hazardous. However, more distant forecasts are consistent as differences vary only by ±2 percentage points. The IPF forecasts All Property returns of 6.7% for 2022 and an average of 6.4% for 2022 – 2025, due to slightly lower rental and capital growth. Retail rental and capital values are forecast to fall again in 2022, but to be positive from 2023, resulting in a total return of 3.4% in 2022 and of 4.0% annually from 2023 to 2025. Office rental and capital values each increase by 1% to 2% each year, giving a total return of about 6.3% in each of the years 2022 to 2025. IPF Industrial forecasts are surprisingly low, given other information, averaging 6.9% in each of 2022 to 2025 following only about 1.0% annual increases in both Retail and Capital Value. In contrast, Colliers have much higher forecasts for "Logistics and Industrial" which may arise from their emphasis on "Logistics", the distribution systems necessary for online shopping, in which very rapid rises in value are forecast with returns averaging 10.6% per year from 2021 to 2025, including a spectacular increase of 31.3% in 2021, when investment yields fell sharply, in places to under 3.0%.

IPF distinguish "Retail" between Standard, Shopping Centre and Retail Warehouse formats, where forecasts distinctly differ. While Standard rental values and capital values are forecast to continue to fall in 2022, they are expected to stabilise over the three years to 2025. Shopping Centres are estimated to return -9.5% in 2021 and are forecast to continue to fall consistently in both Rental and Capital Value in both 2022 and 2023, before recovering significantly in 2024 and 2025 to give a Total Return of about 2.0% in each of the four years to 2025, due to the now high yields. Retail Warehouses are by far the best performing sub-sector of the Retail Market as Rental Value and Capital Value are forecast to recover in 2022 to give a total return of over 7.0% in each of the years to 2025.

The poor investment performance of most "traditional" asset classes, typically as analysed above, has attracted attention to "niche" or other smaller asset classes, that have delivered or are expected to deliver higher returns of which one asset class, "land"; has had both the lowest and the highest return. While agricultural land, has given nil returns over the last five years and is expected to return only a meagre 0.1% over the next five years – too small to measure really – forestry land has returned 15.3% per year and is expected to return a further 11.4% per year over the next five years! In the residential market London "buy to let" is forecast to return only 5.2% per year, but North West "buy to let" a 9.0% return per year, and ranks second to Forestry. Two other "residential" asset classes rank third and fourth in return: Student Housing 8.6% and Build to Rent 7.7%. In general, Savills' forecast "Beds and Sheds" (distribution warehouses) to perform well above "traditional" investments.

Savills consider Edinburgh as a niche investment class that will continue to attract attention, noting international investment buyers bought 78.3% by value of office investments in 2020, an increase from the high level of 73.2% in 2019. In spite of the prospect of a second Scottish referendum, a prospect considered of less concern than other geopolitical risks because of the UK's traditional long leases and its stable legal system, and because of higher Edinburgh prime office yields of 4.75% compared with London's West End of 3.25% and City of 3.75%. Edinburgh commands a premium in two respects: as a capital city internationally recognised for its architectural quality, cultural life and intellectual heritage, coupled with its renowned educational institutions and consequently highly qualified workforce and, as, outside London, having the fourth highest GDP per head of the UK's 179 International Territorial Levels (ITL). Market results attest to Edinburgh's attraction as Edinburgh was the only regional office market where 2020 office take up was higher than in 2019 and where rents have increased consistently, rising to £35.50/ft^2 for Grade A space and seem likely to continue to do so as development is tightly limited by space and planning considerations. In contrast, comparable yields in Glasgow are 5.25% and in Aberdeen are reported as 6.75%, a yield almost certain to rise given the continuing contraction in investment in the oil industry, now further threatened by political opposition.

The retail sector's resilience had been severely tested long before the restrictions to reduce the spread of Covid-19 were introduced in March 2020. For several years household income has changed little, retail competition has increased, especially from discounters, and retail costs, notably labour costs and rates, have risen rapidly while online competition has been taking an increasing share of retail sales: a toxic combination that has had a most damaging effect. Retail units have been declining starting in 2015 when only a net 338 units closed in Great Britain, but rising to 5,493 in 2017 and, after peaking in 2020 at 11,319, is expected in 2022 still to be as many as 9,145, or one unit per 7,000 people – say, a shop closing in a small town. Since 2017 vacancy rates have risen by 45% to 11.1% of all premises in the "leisure" sub-sector, (bars, cafes, restaurants, etc.) and by a lesser 30% in the "retail" sub-sector. But by far the most insidious of the adverse factors has been the increase in online sales. In the UK these had already risen from 3% of total retail sales in 2006 to 19% in 2019, representing the world's highest percentage of internet retail sales. This strong base in online sales expanded rapidly following the Covid-19 restrictions and reached a maximum of 37% in June 2021, falling recently to 26%.

The forecast property returns to retailing indicate that the retail sector as a whole is expected to stabilise next year. Pre-Covid-19 online sales gained about 1.5 percentage points of the market each year. However, in most markets initial high growth rates attenuate. As online retailing expanded it captured the easiest share first – the low hanging fruit – and those retailers remaining are likely to be less susceptible to online marketing or have become more competitive, some embracing online techniques. In mirror image some online retailers moved into "bricks and mortar" to reinforce and to widen their appeal. In contrast to continuing expansion, some online sales appear to be "loss leaders" as return rates on many fashion items and shoes are so high that repacking and wastage costs may make some sales uneconomic. The net effect is that, while I expect online sales to continue to grow, I estimate growth will fall to say, 1.5 percentage points more of retail sales per year. In such a situation if retail sales of, say, £100, 26% of which are online, increase 4% per year, then after five years, retail sales will total £121.70 and, if the online sales percentage rises 1.5 percentage points each year, the online share will be 33.5% or £40.77 of the total £121.70 sales and non-online sales will be £80.93, which is a rise, albeit a small one, from the current £74.00. Surely, all is not lost.

"Retail" encompasses both traditional goods and goods that include a major "convenience" service attraction, for which demand has been increasing and which, by definition, is typically unavailable online. For instance, in H1 2021 "convenience" service shops comprised nine out of the 10 largest growing type of retail stores, opening the following net new stores: fast food 333; convenience stores 332; groceries 208; pizza 129; and takeaway food shops 103 followed by personal services shops – barbers 318; beauty salons 107; and nail salons 60. Such demands seem likely to continue to increase with population growth coupled with an increased frequency of visiting and by extension of the customers' age groups – older grannies and younger teenagers, all demand further assisted by increasing disposable income. Exceptionally, Charity Shops had the largest closures, 446, but, as such closures were often due to Covid induced staff shortages, a large number are likely to re-open. Fashion Shops 349, clothes "women" 411; and clothes "men" 271 were the largest group of closures followed by various services, replaced online, such as bookmakers 342; banks 188; and estate agents 166. Such analysis of the retail market neglects the important functions the opening of "brick and mortar" premises provides for online retailers. Such premises facilitate online fulfilment and returns, are key in their brand positioning and promotion, and provide customers with a physical and psychological "contact" with the brand.

The offline retail crisis contains the seeds of its own revival, as it is resulting in lower rents and lower valuations which will reduce rents and lower rates. Such lower costs will allow a wider range of occupiers to trade profitably. Separately, the political implications of a failing high street will result in some assistance to the retail sector by changing planning restrictions, upgrading town centre infrastructure and effecting environmental, especially "green", improvements. Thus, the present offline decline will not continue inexorably.

The ugly industrial duckling has been transformed into a beautiful logistics swan with excellent genes and long-life expectancy. The industrial sector, previously often associated with grimy premises and multi-let conversions is now focused on huge modern high tech "Logistics" distribution and warehouse units. Yields that were typically 7% to 9% now emulate the best West End offices with investments sold for less at 2.8% at Park Royal, Deptford and at less than 3% in 13 other locations this year. Occupier demand is reported as "buoyant" by Colliers because of "a sustained occupier focus on future-proofing supply chains". Patently, any previous apprehension of the consequences of Brexit on the industrial market has proved unimportant.

Similarly, the apprehension of the Brexit effect on the office market has proved unfounded. Initially City figures "predicted an exodus", 200,000 in one case. Such exaggerated claims have proved to be just that, as the total number of Brexit jobs lost until August 2021 was estimated by the EY Tracker to be "almost 7,600", and EY adds "the days of significant swathes of asset and job relocation appear to have passed". The City's distaste for Brexit allowed them to convince themselves that the effect would be much larger than it is proving to be. Instead of a torrent it is likely to be a continuous dribble of loss to the EU capitals, it would appear primarily because of obstructive political decisions by the EU, unless that loss is outweighed by an inflow of other international but non-EU business into the City.

The long-term effect of office occupation from Covid is likely to be significant. Initially, any contraction in space used was caused by the lockdown measures necessary to contain the rampant spread of the plague. This changed dramatically early this year as outstanding scientific achievements allowed the rapid development and deployment of a range of very effective vaccines. Unfortunately, the spread of the disease throughout the community appears inevitable unless and until it reaches a level of natural attrition or immunity, as has occurred with some other viruses. More likely it will persist in specific segregated areas, breaking out occasionally or when variants emerge that are less controllable and then another epidemic occurs. It will become like influenza, a virus recurring in various forms capable of being attenuated by designed vaccines, but deadly for some, especially those unvaccinated or not vaccinated sufficiently against the specific variants. It will be a disease with which we must live, or not! In 2021 it is estimated 150,000 will have died from Covid-19. In 2019 29,516 deaths were attributed to influenza or pneumonia.

No doubt the much greater understanding of Covid disease will result in measures by the public, by health boards, by law, and by employers which will reduce the spread of this and all such viruses – vaccines obviously – but also ventilation, filtration of circulating air, early warning systems, distancing, testing, and strict hygiene disciplines. In time the "health" effect of the virus on office attendance will become less significant. It will become more like flu which, until now, has not affected working practices or office attendance and nor will Covid, but with very significant exceptions. The perceptions and culture of the population have been modified by better understanding of virus diseases and by bitter experience and, consequently, both employees and employers will be anxious to avoid working conditions that facilitate the spread of such diseases. These concerns will modify the environmental conditions in which the employees choose to work and, consequently, the office conditions required to be provided by employers.

The second more significant effect of the awareness of viral infections on office accommodation lies in the perception and demands of office workers who have become accustomed to working at home part or full time. The significance of the effect will depend on the type of work – routine, capable of external supervision at one extreme, group collaborative work or managerial at the other. Such reticence will be offset by measures likely to be taken by employers to provide safer more attractive, more socially rewarding environments and by the need to provide more space for the occupiers. There is no clear trend: JP Morgan and Goldman Sachs, for instance, require office attendance, but Apple employees voted against office working. The outcome will vary between those functions where overall cost is no more remotely than in the office and those functions where the cost of remote working is higher. For those functions that can be performed online cheaper there are potentially huge savings by transferring work to lower cost remote locations such as India or even the Isles of Scotland. These economic factors will be skewed by individuals' choice of hubbub over suburb or rural tranquillity and other personal preferences. For some working at home is home at work – complete with "domestic" overheads.

In summary, there will be a reduction in office use, primarily because of part-time home work, especially for routine and clerical work. This will be offset by better, bigger space per person or a move to smaller local or compact offices, probably technologically interconnected. The "value" between up to date "premises" and those not up to date will widen dramatically and rent rates will rise for the former and fall for the latter. Unfortunately, the demand for office space is highly inelastic and unused supply which is not or cannot economically be upgraded will give rise to high vacancy rates and result in significantly lower values.

This time last year forecasts for UK house prices were universally gloomy. OBR, the most pessimistic, forecast prices to "fall back" 8% in fiscal 2021/2022 and HMT's Average of Forecasts was for a fall of 2.1% in 2021 followed by falls of 0.9%, 3.0% and 3.9% in the three years to 2024. In September 2020 Savills revised their 2021 forecast down to 0% growth. These forecasts have been wholly confounded as the expected outturn for 2021 is for one of unprecedented growth. For the 12 months to end November 2021 Halifax reports growth of 8.2%; Nationwide 10.0%; and Acadata 4.1% (England and Wales to October) and 13.2% (Scotland to September).

The reports almost always emphasise the same common factors causing the large rise in prices, but with separate considerations for the apparently anomalous Acadata's (England and Wales) lower reported price rises. The common factors are: low interest rates; shortage of available properties; low unemployment; and high economic growth, coupled with high savings. Acadata point to "life style" changes as buyers looked to move to larger premises, often linked to the need to work from home, and Nationwide to "ongoing shifts in house preferences, as a result of the pandemic".

The anomalously low rise in England and Wales, recorded by Acadata, has many causes. First, Acadata's figures include all sales, not just sales based on mortgages, which are skewed both by a higher than average percentage of new houses, and by a higher percentage of first-time buyers where prices have probably risen more than average. Additionally, they are skewed geographically away from London and the South East where prices have risen relatively slowly and they are not based on actual sales but are based on "model" houses, seasonally adjusted raising estimated prices. Also, the mortgage lenders portfolio includes a much higher proportion than average than Acadata of semi-detached houses whose prices have risen most. In contrast Acadata's survey includes a much larger proportion of expensive but slow price rising London houses, many of which are purchased with cash or through specialist mortgages. But, in accordance with the mortgage lenders, Acadata report an above average rise in non-central regions such as: Wales 10.8%; North West 6.9%; and West Midlands 5.7% and consider these regions benefited from both a higher percentage of semi-detached homes that offer more space and garden space than terraces and flats and from falling in the extended temporary reduction in SDLT tax "holiday" category from £500,000 to £250,000 which ended in late September. Lastly, Acadata excludes Scotland where it reports price rises of 13.2%, above the average rise of the UK wide survey of the mortgage lenders. A general finding is that the increase in Covid led demand for property outside London and the East and South East England has been reinforced by "value". Acadata give as a classic sample the sale of a 250m^2 stone-built, detached house overlooking the River Clyde for £850,000, the price of a three-bedroom 120m^2 Victorian terrace in Ealing!

Scotland has enjoyed an unprecedented boom with house prices rising 13.2%, a higher rate of increase than in any of the other United Kingdom regions, to £212,832, a new record. Apart from a maverick change of -0.5% in the Outer Isles, the lowest price increases were 7.5% in North Lanarkshire and around 9% in West Dunbartonshire and Stirling. Even in Aberdeen City, which has recently suffered price falls, prices rose 9.4%. Price rises for larger premises have been proportionately higher due to increased demand from those relocating and the supply of such houses, primarily existing substantially built houses, has been low.

In general, city centre properties, especially flats, have had modest increases. However, a recovery in demand for a specialist sector of such properties may be taking place as exemplified by the reported sale by Acadata of a "flat" in Edinburgh's Heriot Row for £1.3m. It may be that, with the Covid threat reduced, relocators from London still prefer spacious elegant central period flats to "country living", which for some relocators suffering "rural buyers" remorse, the new pandemic property trend is proving an evanescent ideal rather than idyll. Certainly, the ESPC's House Price Report, covering the south east of Scotland, confirm an 8% rise in value of Edinburgh's New Town/West End flats. This rise is distinguished from the overall City of Edinburgh price rise of only 0.2% in the year to November. This anomaly was caused because, excluding the New Town's 8.2% and the prestigious Morningside/Merchiston flats 10.9% rises, all other flatted property only rose 1.2% and six inlying Edinburgh suburbs suffered falls of between 10.2% and 20.6%. However, Suburban areas, outside the City, mostly had larger rises: East Lothian 8.7%; West Fife and Kinross 6.2%; and West Lothian 5.2%. Thus, Edinburgh's rises were concentrated in the highest quality central properties and its suburban peripheries.

House price forecasts are less varied than the extreme of the forecasts made in 2020, notably the OBR's – 8%. This year the OBR forecasts steady increases of 2.2%, 1.0%, 2.2%, 3.1% and 3.6% over the next five fiscal years (i.e. to 31 March) or 21.5% overall. The HMT's average of forecasts is also cautious forecasting rises of 1.3%, 1.1%, 2.4% and 3.2% over the next four calendar years. Savills provide the most comprehensive and the most frequent forecasts, and a comparison of recent forecasts demonstrates the perceived volatility of the market. In June 2020 UK mainstream house prices were forecast to decline 7.5% in 2020 and in the five years to 2024 to rise by 15.1%, but in September they revised the 2020 mainstream forecast to a rise of 4.0%, an 11.5 percentage point swing, and correspondingly improved their forecast for the five-year period to 2024 to 20.4%.

Savills Winter 2021 UK forecasts this year, lower than OBR's, are for small increases of 3.5%, 3.0%, 2.5%, 2.0% and 1.5% or 13.1% over the five years. This UK average includes a forecast of the continuing lead in price rise of the "north" with the North West (the highest), and of Yorkshire/Humber Wales all above 18.6% over five years. The 15.9% forecast for Scotland is lower than for the "North" and the lowest price rises of 5.6% are forecast for London. Many of these forecasts fall below any reasonable expectation of inflation, which, if over the next five years averages only 2.5%, will be 13.1%, exactly the forecast average house price increase over the next five years. Such low levels of real price increases are forecast because of an expected rise in interest costs which will increase the overall mortgage cost (capital and interest) to an "average" household from about the current 7% of income to about 12% over the next five years. The corresponding stress testing hurdle for mortgage approval purposes corresponding to about 27% of income, presenting a considerable barrier to mortgage availability and servicing.

Prime UK Residential forecasts are for increases well above inflation, totalling 19.3% over the next five years, including 2026, and are higher for Scotland at 22.8%. Savills's forecast is partly based on the large rise of 8.5% in Scotland's prime properties in 2021, a rise dominated by Edinburgh (251 transactions above £1m), but supported by Glasgow (34 transactions above £1m) and spreading also to Perthshire and Elie, Strathtay and Comrie as well as Gleneagles and some such sales in Glasgow's "countryside" at Bridge of Allan, Dunblane and Strathblane.

The Halifax index previously peaked at the £199,000 recorded in August 2007. The equivalent RPI inflation-adjusted price in October 2021 would have been 50.5% higher or £299,500, and the current Halifax price in October 2021 is £272,992. In spite of this year's rapid rises, the current price is still 9.0% lower in real terms. If house prices rise at 3.5% per annum and inflation is 2.0% per annum, then just less than eight more years will elapse before the August 2007 peak is regained in real terms.

House prices are difficult to forecast and historically and, notably last year, errors have been large, especially around the timing of reversals or unusual events such as we have just experienced. While, without hesitation, I repeat my previous forecasts, "… the key determinant of the long-term housing market will be a shortage in supply, resulting in higher prices", for the year I add a caveat: provided inflationary led interest rate increases do not reduce demand: supply and demand may be much more finely balanced than in previous years.

Future Progress

The Group's strategy continues to be the development of its sites in the Edinburgh housing market areas and the geographical extension north and east that is occurring, while maximising the value of its investment portfolio.

The strategy is unchanged from last year, but its implementation has been delayed largely by the direct and indirect effect of the Covid-19 virus pandemic. In March 2020 work was halted on our development at Brunstane, just before the tarmac and other finishing items were undertaken and work was not restarted until mid-summer. When marketing eventually took place in July 2020, all the five properties went "under offer" within two months at prices above the Home Report and all "offers" were higher than our budget prices. Two Brunstane sales were completed in quarters 3 and 4 of 2020, while the other three were delayed by sales of the purchasers' existing properties and only completed in quarter 1 of 2021. This delayed the next phase at Brunstane, due both to site conditions and to funding restrictions.

Covid has also been largely responsible for a further delay in the sale of St Margaret's House. The initial delay resulted from difficulties the developer experienced in gaining the full planning consent necessary coupled with a change in the prospective occupiers' accommodation policy. Once the policy became clear the option to the developer was extended, unfortunately, just before the Covid crisis resulted in the restrictions which caused a disruption to demand for student accommodation and great uncertainty and instability in the student market. Such conditions have persisted until recently and, paradoxically, the market now appears stronger than before the first 2020 lockdown. Thus, we plan to re-market St Margaret's House into this now buoyant market in the New Year.

The sale of Ardpatrick for £2.7m was agreed in December 2020 and was completed on 27 April 2021, a delay caused by the logistical problem of location, the weather and Covid, which prevented normal transport and removal arrangements. This sale has permitted the release of working capital to fund our developments which have been greatly hindered by both the cost and availability of credit. For example, a 60% loan to cost at Brunstane together with ancillary expenses cost £160,000, over £31,000 per house and over 10% per annum. We will now fund developments using this available capital. Moreover, if funding is deemed advantageous, then for those low base cost properties acquired without planning, we will be able to provide equity sufficient to meet the 40% cost to value required by the lenders.

Since the sale of Brunstane and Ardpatrick we have been delayed in bringing forward new developments by unusually severe delays in the planning process, often caused by the inefficiencies of the current Covid working practices. In addition to these delays, personnel changes have resulted in additional requirements, reviews and changing interpretations. We continue to strive to circumvent these constraints.

The working capital now available has also allowed us to instruct the updating of our existing consents at Belford Road with improvements within the existing consent, so providing a modern 20 high amenity flat development in keeping with the high quality and varied style of the location.

Our developments require a stable and liquid housing market, but we do not depend on any increase in prices for the successful development of most of our sites, as most of these sites were purchased unconditionally for prices not far above their existing use value. A major component of the Group's enhancement of value lies in securing planning permission, and to the extent of that permission, and it is relatively independent of changes in house values. For development or trading properties, unlike investment properties, no change is made to the Group's balance sheet even when improved development values have been obtained. Naturally, however, the balance sheet will reflect such enhanced value as the properties are sold or developed.

The strategy of the Group continues to be conservative, but responsive to market conditions, so continuing a philosophy that underlay the change from primarily investment property to include our now extensive development programme. This change in strategy allowed us to escape the devastation caused by the 2008 Great Recession from which most sections of the property sector either never recovered or had to be recapitalised and to avoid the extensive loss in value associated with the Covid-19 pandemic and the changes continuing to affect adversely most retail and many office investments.

On behalf of the members of the Group I pay tribute to all our employees who have worked for a second year unstintingly and well under the difficult conditions persisting throughout the long and continuing Covid-19 pandemic.

The closing mid-market share price on 21 December 2021 was 112p, a discount to the NAV of 208.4p as at 30 June 2021. The Board does not recommend a final dividend, but intends to restore dividends when profitability and consideration for other opportunities and obligations permit.

Conclusion

The recovery from the effects of the Covid virus is occurring more quickly and with less economic scarring than appeared likely. The rapidity of the recovery is causing short term supply cost and inflation concerns, which are unlikely to bear on the economy in the long-term. Inflation, while trending higher, may be tacitly accepted, as the selection of the precise target rate between certain limits is arbitrary. Higher inflation rates facilitate the redeployment of both labour and capital to more productive activity and reduce the real capital burden of debt. A higher tolerance of inflation permits lower interest rates, reducing the interest cost of Government debt.

The main aim of economic management should be to increase the productivity and hence living standards, and tolerance of higher inflation would remove an impediment to more rapid growth. Recent improvements to productivity have been very limited in spite of the availability of electronic and digital technology. The realisation of this potential may require an all-encompassing network together with more widespread use. The significance of a network, or a quantum change in working practice is that an output greater than the sum of the parts is achievable. For example, while the value of each of the first few rail connections was significant to each of the connected parties, the sum of the value to them of the interconnected network was much greater. Similarly, while self-evidently containerisation is a more productive method of moving goods, its potential value was only achieved when several incompatible systems were standardised. When such quantum changes are achieved their full potential is usually reached over a long period as experience with steam, electricity, internal combustion engines, microbiological and advanced genetic engineering demonstrate: Kaizen, the Japanese doctrine of constant reappraisal and analysis is consciously embraced in Japan.

In the UK there is a bias against continuous reappraisal including rational analysis of investment and entrenched social structures exist, restricting the implementation of change and of investment inimical to their groups. That neglect of an appropriate rational analysis of investment is a major cause of poor productivity growth. A clear example is the unqualified acceptance of certain green investment policies by groups who support such policies almost as if an article of faith.

A consequence of such faith is the absence of formal assessment of the societal benefit of investing immense capital in unproved green ventures, a criticism especially true of trophy investment. There appears to be no definitive analysis of which projects bring the highest returns now, which projects may be delayed as they are likely to be replaced by better technology later and why or whether the UK's economic welfare should be sacrificed to attempt to attain aims that are wholly frustrated by actions being undertaken elsewhere. Importantly, the value of green investment is not even considered in the cohort of whether a greater good would be served by such investment in other enterprises. For example, whether more lives would be saved or enhanced by investing in attainable simple measures that will produce immediate but tangible enduring results such as "clean" water, working technologies, wider education, and the reduction of the misappropriation of aid and of political corruption. The most honourable intentions of green philanthropists require careful analysis of the achievable good, at what cost to other good that is foregone, and whether or not that good they seek would be achievable later more cheaply, so avoiding the current opportunity cost.

Scottish Independence also evidences the triumph of faith over analysis, as its achievement would cause a distinct reduction in economic welfare. Understandably, while this may be recognised by a minority as an acceptable or desirable trade-off for entirely proper and justifiable political objectives, such recognition may be tainted by a self-deception that any such disadvantage will fall "elsewhere" or "go away". Belief supplants reason.

The absence of objective analyses originates from our existing culture and its accepted practices which unquestionably permits orthodoxies to persist: it is not "Kaizen". Examples of such orthodoxies are manifest in many cultures and over many centuries and are features of many religious doctrines, the medieval guild system, caste categorisation and, germanely, the current highly cartelised professions. They provide, what the prize winning economist, Mancur Olson terms, "distribution coalitions" – collusive, collaborative and lobbying networks to gain and maintain economic advantage to those few controlling them, but to the disadvantage of all others. All such structures abhor change and rigorous analysis, as self-preservation and advancement are their objective. A great gift to Scotland was the

Enlightenment, the gift of reason, a gift foresworn in a society that prefers preferences and the preferred to objectivity. The corollary, unfortunately, is lower productivity and poorer living standards.

I D Lowe
Chairman
22 December 2021

Strategic report for the year ended 30 June 2021

Operating and Financial Review

Principal Activities

The principal activities of the Group are the holding of property for both investment and development purposes.

Results and proposed dividends

The Group profit for the year after taxation amounted to £460,000 (*2020 profit: £95,000)*. The directors do not propose a dividend in respect of the current financial year (*2020: Nil*). The Group net asset value amounts to £24,555,000 (2020: £24,095,000).

Business review

A full review of the Group's business results for the year and future prospects is included in the Chairman's Statement within the Review of Activities on pages 2 to 4 and Future Progress on pages 17 and 18. In accordance with legislation the accounts have been prepared in accordance with International Accounting Standards. As permitted by Section 408 of the Companies Act 2006, the profit and loss account of the parent Company is not presented as part of these financial statements.

Key performance indicators

The key performance indicators for the Group are property valuations, planning progress and the stability of house prices, all of which are discussed in the Chairman's Statement. The intention in the coming year is to realise cash from the sale of assets to provide funding for its development programme, repay certain existing debt and provide general working capital.

Principal risks and uncertainties

There are a number of potential risks and uncertainties, which have been identified within the business and which could have a material impact on the Group's long-term performance.

> ***Development risk***
> Developments are undertaken where appropriate value is judged to be obtainable after consideration of economic prospects and market assessments based on both internal analysis and external professional advice. Committed developments are monitored regularly.
>
> ***Planning risk***
> Properties without appropriate planning consent are purchased only after detailed consideration of the probabilities of obtaining planning within an appropriate timescale. The risk that planning consent is not obtained is mitigated by ensuring purchases are made at near to existing use value. In such purchases the Group adopts a portfolio approach seeking an overall return within which it accepts a small minority will be less successful.
>
> ***Property values***

The Group's principal investment properties have either development prospects or a development angle which should insulate them against the full effect of any general investment downgrade of commercial property.

Availability of funding
The Group has cash resources but it may also use bank funding to undertake its developments and for future property acquisitions. Bank facilities will be negotiated and tailored to each project in terms of quantum and timing. Any intended borrowings for future projects will be at conservative levels of gearing.

Funding is readily available, provided the banks' current strict criteria are met and the relatively high rates of interest are accepted.

The low acquisition cost of some of the Group's sites reduces the overall development cost and hence the level of funding available under current formulaic lending processes based on loan to cost.

Covid-19
While the timing of certain activities, principally the completion and sale of new homes on one development site and the sale of an investment property, have been affected by Covid-19, the Group expects that Covid-19 will have less of an ongoing impact due to the availability of vaccines and that demand will be maintained from tenants for small commercial properties and for quality housing sales.

Tenant relationships
All property companies have exposure to the covenant of their tenants as rentals drive capital values as well as providing income. The Group seeks to minimise exposure to any single sector or tenant across the portfolio and continually monitors payment performance.

Environmental policy
The Group recognises the importance of its environmental responsibilities, monitors its impact on the environment and designs and implements policies to reduce any damage that might be caused by Group activities.

Brexit
The Group does not expect Brexit to impact significantly on its operations or assets as it and its customers are all based in the UK.

Corporate Governance

The directors recognise the need for sound corporate governance. As a company whose shares are traded on AIM, the Board adopted the Quoted Companies Alliance's Corporate Governance Code ("the QCA Code"). Its corporate governance statement including any disclosures required pursuant to the QCA Code is published on the Company's website www.caledoniantrust.com.

Section 172 Compliance

Section 172 of the Companies Act 2006 imposes a general duty on every Director to act in a way they consider, in good faith, would be the most likely to promote the success of the Group and Company for the benefits of its shareholders as a whole. In doing so, Directors should have regard to several matters including:

a) The likely consequences of any decision in the long term;
b) The interests of the Company's employees;
c) The need to foster the Group and Company's business relationships with suppliers, customers and others;
d) The impact of the Group and Company's operations on the community and environment;

e) The desirability of the Group and Company maintaining a reputation for high standards of business conduct; and
f) The need to act fairly as between members of the Company.

The Board factors stakeholder interest into its long-term policies and objectives. The business of the Group and Company requires engagement with shareholders, customers and tenants, local planning authorities, employees and suppliers.

When considering stakeholder interest, the Board is responsible for ensuring that the long-term policies and objectives implemented allow the Group and Company to provide tenants with properties which meet their needs and to produce consistently high quality homes on its developments.

The Executive Directors are responsible for the operations of the business while the Non-Executive Director is independent and well positioned to provide objective judgement and scrutiny over decisions made by the Board.

Information about stakeholders and how the Board has discharged its duties are included on pages 23 and 24.

M J Baynham
Secretary
22 December 2021

Corporate Governance
QCA Code Compliance and Section 172 Statement
for the year ended 30 June 2021

The corporate governance report is intended to provide shareholders with a clear understanding of the Group's corporate governance arrangements, including analysing compliance with the Quoted Companies Alliance 2018 Corporate Governance Code ("the QCA Code") and where the Group does not comply with the QCA Code, an explanation of why it does not.

The QCA Code provides a robust framework which enables the Group to maintain high standards of corporate governance appropriate for the size of the Group. The QCA Code sets out ten principles and each principle and the Group's actions in relation related thereto are set out below. Douglas Lowe, in his capacity as Executive Chairman, is responsible for ensuring the Group has the necessary corporate governance framework in place and that, except for Principle Five, the ten principles are followed across the Group.

Principle One
Business Model and Strategy

The Group's business model is that of a property investment and development company, which is focused on the Scottish property market. Further details regarding application of the Group's business model, its activities and its properties can be found in the 'Review of Activities' section of the Chairman's Statement on pages 2 to 4 of the Group's annual report and accounts for the year ended 30 June 2021. The 'Future Progress' section of the Chairman's Statement on pages 17 and 18 of the Group's annual report and accounts for the year ended 30 June 2021 provides a summary of the Group's strategy. The key challenges in the execution of the Group's business model and strategy and how the Group seeks to address these can be found in the 'Principal risks and uncertainties' section on pages 20 and 21 of the Group's annual report and accounts for the year ended 30 June 2021.

Principle Two
Section 172 Statement and Understanding Shareholder Needs and Expectations

As well as compliance with the QCA Code, Directors are required in accordance with Section 172 of the Companies Act 2006 to include a statement of how they have taken into account the shareholders in promoting the success of the Company. This section and information on pages 21 and 22 set out how the Board has discharged its duties.

The Board is committed to maintaining good communications and having constructive dialogue with its shareholders in order to understand the needs and expectations of the Company's Shareholders. It is important to note that the executive directors are the two largest shareholders, holding over 85% of the Company's share capital.

Investors have access to current information on the Company through its website, www.caledoniantrust.com, through its regulatory announcements, its annual and interim accounts and through the directors who are available to answer investor related enquiries.

Shareholders may contact the Company in writing via email (webmail@caledoniantrust.com), by telephone on 0131 220 0416 or in writing to the Company's Head Office, 61A North Castle Street, Edinburgh EH2 3LJ. Any information provided in response to any such enquiries will be information that is freely available in the public domain.

All shareholders are encouraged to attend the Company Annual General Meeting where the Directors listen to the views of the shareholders formally during the AGM and informally following the AGM. In the event of a voting decision not being in line with its expectations the Board would seek to engage with those shareholders to understand and address any concerns as appropriate. The arrangements for the 2022 AGM may again be affected by Covid-19 precautions and the Directors will encourage shareholders to continue their engagement with the Directors through any of the channels already mentioned.

The Board seeks to encourage discussion with its shareholders to whom they make themselves available. The Board dedicate sufficient time to ensure that communication is effective with existing and potential shareholders and other key stakeholders. The Board believes the Company's mode of engaging with shareholders is adequate and effective.

Principle Three
Wider Stakeholder and Social Responsibilities

The Group follows Scottish Government guidance on the Covid-19 pandemic and implemented socially distanced working within the Group's administrative office. Where possible, staff also worked from home.

On the basis of the Directors' knowledge and long experience of the operations of the Group the Board recognises that the long-term success of the Group is reliant upon the efforts of the employees of the Group, its professional advisors and its contractors. The directors engage directly on a regular basis with all these stakeholders which ensures that there is close Board oversight and contact with the Group's key resources and relationships.

Employees: The Group has a small number of full time and seasonal employees. The Executive Directors are in regular contact with the Group's employees, which provides an opportunity for employees to discuss matters they wish to raise. The administrative staff are in contact with the Directors on a daily basis and employees working remotely are in contact with the Chairman regularly by phone. No pay review has taken place due to the uncertainties caused by the Covid-19 pandemic.

Customers: The Group aims to deliver quality homes and other developments. It invests in strong design features and should any snagging work be required, it ensures rectification is completed quickly. The Group's interaction with its tenants is constructive and cordial and any contentious points are quickly resolved. The Group recognises the important role of all relevant Regulations and seeks to conform with both the spirit and the requirement of the regulations.

Suppliers and professional advisors: The Group engages contractors after appropriate formal and informal vetting, and for larger projects after formal tendering. The Executive Directors meet with contractors regularly throughout large projects to review their recommendations and to review progress. Advisors are selected on the basis of suitability and experience for the advice required. For each firm engaged an agreed nominated partner or director is responsible for the Group's instructions and advice who reports to the executive directors as required.

Environment: The Board recognises the growing awareness and requirements in respect of environmental issues and is working with its professional advisors to promote an environmentally friendly approach to the design of its new developments.

The Group takes into account feedback received from its key stakeholders and considers making amendments to working arrangements and operational plans where appropriate and where such amendments are consistent with the Group's strategy and objectives. However, no material changes to the Group's working processes were required over the year to 30 June 2021, or more recently, as a result of stakeholder feedback received by the Company.

Principle Four
Risk Management

In addition to its other roles and responsibilities, the Audit and Compliance Committee is responsible to the Board as a key control for ensuring that procedures are in place, and are being effectively implemented to identify, assess and manage the significant risks faced by the Group in respect of the execution and delivery of the Group's strategy. The Board and executive management team also consider and monitor risk on an ongoing basis.

The principal risks and uncertainties which have been identified within the business and which could have a material impact on the Group's long-term performance can be found in the 'Principal risks and uncertainties' section on pages 20 and 21 of the Company's annual report and accounts for the year ended 30 June 2021.

The risks which the Group faces are subject to change and the measures to counter or to mitigate them are reviewed as required. The Board considers that an internal audit function is not necessary, due to the close day to day control exercised by the executive directors.

Principle Five
Maintaining a Well Functioning Board of Directors

As at 22 December 2021 the Board comprised the Chairman and Chief Executive Officer Douglas Lowe, one executive director, Michael Baynham and one non-executive director, Roderick Pearson. Of the Board's members, Mr Pearson is considered to be independent. A further commentary on this topic is provided below.

Mr Lowe has been both Chairman and Chief Executive Officer of the Company for many years. He is the largest shareholder holding over 79% of the issued share capital and has since the banking crisis of 2007 provided significant loans to the Group to fund its working capital requirements. The Board believes that Mr Lowe's shareholding aligns his interests with the other members' interests and there is ample evidence to support this.

The Board consider that in these circumstances it is in the best interests of the Group to maintain Mr Lowe's positions as both Chairman and Chief Executive Officer contrary to recommended best practice in the QCA Code. The Board has been assured that, subject to all debt being repaid, a return to normal remuneration levels and normal investment and trading conditions, further Board appointments and changes will be made. Separately, the Board has received an undertaking from Mr Lowe that if he ceases to work full-time, appropriate Board changes will be made.

The Company presently does not comply with the QCA Code recommendation to have at least two non-executive directors who are identified as independent. For those reasons the Board believes that, given the present size of the Company and the nature of its business and operations it is well served by the current composition of the Board which functions effectively and is well balanced. This position is considered regularly and where appropriate and necessary further appointments will be made.

Mr Pearson has been a non-executive director since March 2007 and the rest of the Board consider him to continue to be independent. Mr Pearson brings the weight of his professional qualification and experience to the valuations of investment properties but is sufficiently removed from the day to day operations of the Company to retain a critical and independent view. As such he represents the best interests of all the shareholders.

Mr Lowe and Mr Baynham work full time and Mr Pearson currently works on average two days per month. Biographical details of the current directors are set out below. Executive and non-executive directors are not presently subject to re-election.

The Board met formally on ten occasions during the year to 30 June 2021. Mr Lowe did not attend one meeting concerned with a topic in which he had an interest but all directors attended the other nine meetings. It has established an Audit and Compliance Committee and a Remuneration Committee, details of which are set out further below. The Audit and Compliance Committee met on three occasions during the year ended 30 June 2021. As the Board resolved not to amend the remuneration of the Directors, the Remuneration Committee was not required to meet during the year ended 30 June 2021.

As appointments to the Board are made by the Board as a whole it is not considered necessary to create a Nominations Committee.

Principle Six
Appropriate Skills and Experience of the Directors

The Board currently consists of three directors. Mr Baynham is also the Group Company Secretary. The Board recognises that it currently has a limited diversity and increasing diversity will be considered as and when the Board concludes that replacement or additional directors are required.

The Board is satisfied that with the Directors, it has an effective and appropriate balance of skills and experience to deliver the strategy of Group for the benefit of the shareholders over the medium to long-term. All directors are able to take independent professional advice in the furtherance of their duties.

During the year ended 30 June 2021, neither the board nor any committee has sought external advice on a significant matter and no external advisers to the board or any of its committees have been engaged.

I Douglas Lowe
Chairman and Chief Executive Officer
Mr Lowe is a graduate of Clare College Cambridge (MA Hons in Natural Science and Diploma in Agriculture) and Harvard Graduate School of Business Administration (MBA and Certificate in Advanced Agricultural Economics). Until 1977 he was Chief Executive of his family business, David Lowe and Sons of Musselburgh, property owners, farmers and market growers established in 1860, which farmed intensively 2,000 acres and employed over 200 people.

In 1978 and 1979 Mr Lowe was Deputy Managing Director of Bruntons (Musselburgh), a listed company which manufactured mainly wire and wire rope and employed approximately 1,000 people. He was a significant shareholder and, from 1986 until shortly after joining the Company, Executive Deputy Chairman of Randsworth Trust PLC, a property company with a dealing facility on the Unlisted Securities Market. The market capitalisation of Randsworth Trust PLC increased from £886,000 to over £250 million between April 1986 and sale of the company in 1989.

Mr Lowe purchased shares in Caledonian Trust PLC in August 1987, at which time he became Chief Executive. Mr Lowe attends two broadly constituted private political and economics discussion groups throughout the year. He maintains close contact with all of the Group's professional advisers in order to discuss and identify any new laws, regulations or standards which may affect the Group. He studies a wide range of relevant economic, political and technical publications and undertakes extensive research in preparation of the Chairman's Statements, which accompany the Annual and Interim Accounts. Mr Lowe's experience in many senior executive positions in many organisations ensures that he has the necessary ability to develop and implement the Group's strategy.

Michael J Baynham
Executive Director and Company Secretary
Mr Baynham graduated in law (LLB (Hons)) from Aberdeen University in 1978. Prior to joining the Company in 1989, he worked as a solicitor in private practice specialising in commercial property and

corporate law. He was a founding partner of Orr MacQueen WS in 1981 and from 1987 to 1989 was an associate with Dundas & Wilson CS.

Mr Baynham maintains his Practising Certificate with the Law Society of Scotland and attends professional development seminars and other relevant seminars on a regular basis throughout the year. He maintains close contact with all of the Group's professional advisers in order to understand and apply any new laws, regulations or standards relevant to the business.

Mr Baynham's experience of corporate law, commercial property law, commercial property finance, investment and development ensures that he has the necessary ability to implement the Group's strategy.

Roderick J Pearson
Non-Executive Director
Mr Pearson is a graduate of Queens' College Cambridge (MA Modern Languages and Land Economy) and is a Fellow of the Royal Institution of Chartered Surveyors. He has held senior positions in Ryden and Colliers International, practising in Edinburgh, Aberdeen and Glasgow, and now has his own practice, RJ Pearson Property Consultants.

Mr Pearson's experience of property as a surveyor in private practice together with his experience in senior management positions ensures that he has the ability to support the executive directors and also to challenge strategy, and decision making and to scrutinise performance.

All three members of the Board bring relevant sector experience through their long and varied careers throughout the property, financial, legal and consulting sectors. The Board believes that its members possess the relevant qualifications and skills necessary to effectively oversee and execute the Group's strategy.

Principle Seven
Evaluation of Board Performance

The directors consider that the size of the Company does not justify the use of third parties to evaluate the performance of the Board on an annual basis. The Company does not currently have a formal appraisal process for Directors but the Chairman assesses the effectiveness of the Board as a whole and the individual directors to ensure that their contribution is relevant and effective. This process is performed over the course of the year. He also assesses the effectiveness of the Audit Committee and the Remuneration Committee. During the year ended 30 June 2021, the Chairman's assessment did not find any shortcoming in Board or committee effectiveness and did not lead to any material recommendations for any changes.

The Chairman is the majority shareholder and the above arrangements are acceptable to him. The Board has not received any communication from independent shareholders raising an issue on Board effectiveness. The Board will continue to assess this position on at least an annual basis, and if and when it is deemed appropriate it will establish more prescribed evaluation processes.

The Directors have given consideration to succession planning and have in place a strategy to address succession as and when it becomes necessary. The Board believes the current board and current committee structure and membership is appropriate, but will consider whether any board and other senior management appointments are required on at least an annual basis and will consider the feedback from the Chairman's assessments, as described above, in this process.

Principle Eight
Corporate Culture

The Board acknowledges that their decisions on strategy and risk determine the corporate culture of the Group and its performance. High standards of ethical, moral and social behaviour is deemed important in achieving the Group's corporate objectives and strategy and such standards are actively promoted.
The Group only has a small number of employees who work closely with the Executive directors. Accordingly, the Board is always well placed to assess its culture which respects all individuals, permits open dialogue and facilitates the best interest of all of the Group's stakeholders. The Board are prepared to take appropriate action against unethical behaviour, violation of company policies or misconduct.

The Company has adopted a policy for directors' and employees' dealings in the Company's shares which is appropriate for a company whose securities are traded on AIM, and is in accordance with rule 21 of the AIM Rules and the Market Abuse Regulation of the European Union.

Principle Nine
Maintenance of Governance Structures and Processes

Board Roles and Responsibilities

Ultimate authority for all aspects of the Group's activities rests with the Board, with the respective responsibilities of the Directors delegated by the Board. Given the size and nature of the Group's business both of the executive directors engage directly with all key stakeholders on a regular basis.

As noted in the disclosure above in respect of Principle Five, Mr Lowe is both Chairman and Chief Executive Officer of the Company. In his role as Chairman, Mr Lowe has overall responsibility for corporate governance matters in the Company, leadership of the board and ensuring its effectiveness on all aspects of its role. In his role as Chief Executive Officer Mr Lowe leads the Group's staff and is responsible for implementing those actions required to deliver on the agreed strategy.

Matters reserved specific to the Board include formulating, reviewing and approving the Group's strategy, budget, major items of capital expenditure, acquisitions and disposals, and reporting to shareholders and approving the Annual and Interim Statements. The Board is also responsible for assessing the risks facing the Group and where possible developing a strategy to mitigate such risk.

The Board complies with the Companies Act 2006 and all other relevant rules and regulations including their duty to act within their powers; to promote the success of the Group; to exercise independent judgement; to exercise reasonable care, skill and diligence; to avoid conflicts of interest; not to accept benefits from third parties and to declare any interest in any proposed transaction or arrangement.

At present, the Board is satisfied with the Group's corporate governance, given the Group's size and the nature of its operations, and there are no specific plans for changes to the Company's corporate governance arrangements in the shorter term. As the Group expands and when its programme of developments increase, future Board appointments and Board changes will be considered.

Audit Committee
During the period under review the Audit Committee was chaired by Mr Pearson. It met to review the Interim Report, the Annual Report, to consider the suitability of and to monitor the internal control processes and to review the valuations of its investment and stock properties. The Audit Committee reviewed the findings of the external auditor and reviews accounting policies and material accounting judgements.

The independence and effectiveness of the external auditor is reviewed annually and the Audit Committee meets at least once per financial year with the auditor to discuss their independence and objectivity, the Annual Report, any audit issues arising, internal control processes, auditor appointment and fee levels and other appropriate matters.

The Audit Committee have reported that they are satisfied that the internal control processes are robust. The accounting policies meet regulatory requirements and any material judgements are stated in Note 3 of the consolidated accounts for the year ended 30 June 2021. The Audit Committee is satisfied that the external auditor is independent and effective.

The Audit Committee terms of reference can be found here http://www.caledoniantrust.com/CR11-AUDIT-COMMITTEE-M0918.pdf .

Remuneration Committee
As the Board resolved not to amend the remuneration of the Directors the Remuneration Committee was not required to meet during the year and as such there was no report from the Remuneration Committee in respect of the year ended 30 June 2021.

The Remuneration Committee terms of reference can be found here www.caledoniantrust.com/CR11-REMUNERATION-COMMITTEE-M0918.pdf .

Nomination Committee
The Board have agreed that appointments to the Board will be made by the Board as a whole and have not created a Nomination Committee.

At present, the Board is satisfied with the Company's corporate governance, given the Company's size and the nature of its operations, and as such there are no specific plans for changes to the Company's corporate governance arrangements in the shorter term.

As the Group expands and when its programmes of developments increase, future Board appointments and Board changes to reflect such changes will be considered, as appropriate.

Principle Ten
Shareholder Communication

The work of the Company's Audit Committee and Remuneration Committee during the year is described above.

As the Board resolved not to amend the remuneration of the Directors the Remuneration Committee was not required to meet during the year, so no report from this committee is available.

Shareholders have access to current information on the Company through its website, http://www.caledoniantrust.com, though its regulatory announcements, its annual and interim financial reports and via Mr Lowe, Chairman, who is available to answer investor relations enquiries. Shareholders may contact the company in writing, via email (webmail@caledoniantrust.com) or by telephone on 0131 220 0416. Enquiries that are received will be directed to the Chairman, who will consider an appropriate response.

The results of voting on all resolutions in future general meetings will be posted to the Group's website and announced via RNS. Where a significant proportion of votes (e.g. 20% of independent votes) have been cast against a resolution at any general meeting, the Board will post this on the Group's website and will include, on a timely basis, an explanation of what actions it intends to take to understand the reasons behind that vote result, and, where appropriate, any different action it has taken, or will take, as a result of the vote.

The Company's financial reports since 2002 can be found here http://www.caledoniantrust.com/accounts_details.html. Notices of General Meetings of the Company for the last five years can be found here http://www.caledoniantrust.com/AGM_Notices.html .

The Board is committed to maintaining good communication and having constructive dialogue with its shareholders. The Group engages in full and open communication with its shareholders and endeavours to reply promptly to all shareholder queries received. The Chairman prepares a detailed summary of the Group's activities in his Statement which accompanies the Annual and Interim Financial Statements. Regulatory announcements are distributed in a timely fashion through appropriate channels to ensure shareholders are able to access material information on the Group's progress. A report of the audit and remuneration committees is included with Principle Nine above. All shareholders are encouraged to attend the Company's Annual General Meeting.

M J Baynham
Secretary
22 December 2021

Directors' report for the year ended 30 June 2021

Directors

The directors who held office at the year end and their interests in the Company's share capital and outstanding loans with the Company at the year-end are set out below:

Beneficial interests - Ordinary shares of 20p each

	Percentage held	**30 June 2021** **£**	30 June 2020 £
I D Lowe	79.1	9,324,582	9,324,582
M J Baynham	6.2	729,236	729,236
R J Pearson	-	-	-

Beneficial interests – Unsecured loans

I D Lowe	100.0	4,380,000	4,380,000
M J Baynham	100.0	-	99,999

The interest of I D Lowe in the unsecured loans of £4,380,000 (*2020: £4,380,000*) is as controlling shareholder of the lender, Leafrealm Limited. The interest of M J Baynham in the unsecured loan of £Nil (*2020: £99,999*) was in respect of a loan made by his wife, Mrs V Baynham.

No rights to subscribe for shares or debentures of Group companies were granted to any of the directors or their immediate families or exercised by them during the financial year.

Political and charitable donations

Neither the Company nor any of its subsidiaries made any charitable or political donations during the year.

Disclosure of information to auditor

The directors who held office at the date of approval of the Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Group's auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Group's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Auditor

In accordance with Section 489 of the Companies Act 2006, a resolution for the re-appointment of Johnston Carmichael LLP will be put to the Annual General Meeting.

By Order of the Board

M J Baynham
Secretary

22 December 2021

Consolidated statement of comprehensive income for the year ended 30 June 2021

	Note	**2021** **£000**	2020 £000
Revenue			
Revenue from development property sales		**4,186**	90

Gross rental income from investment properties		**368**	446
Total Revenue	5	**4,554**	536
Cost of development property sales		**(3,930)**	(82)
Property charges		**(128)**	(172)
Cost of Sales		**(4,058)**	(254)
Gross Profit		**496**	282
Administrative expenses		**(440)**	(428)
Other income		**2**	20
Net operating profit/(loss) before investment property disposals and valuation movements		**58**	(126)
Valuation gains on investment properties	10	**690**	250
Loss on disposal of investment property		**(151)**	-
Net gains on investment properties		**539**	250
Operating profit	5	**597**	124
Financial expenses	7	**(137)**	(29)
Net financing costs		**(137)**	(29)
Profit before taxation		**460**	95
Income tax	8	**-**	-
Profit and total comprehensive income for the financial year attributable to equity holders of the parent Company		**460**	95
Earnings per share			
Basic and diluted earnings per share (pence)	9	**3.90p**	0.81p

The notes on pages 47 – 67 form an integral part of these financial statements.

Consolidated balance sheet as at 30 June 2021

	Note	**2021 £000**	2020 £000
Non-current assets			
Investment property	10	**17,110**	17,720
Plant and equipment	11	**3**	10
Investments	12	**1**	1
Total non-current assets		**17,114**	17,731
Current assets			

Trading properties	13	**9,313**	13,006
Trade and other receivables	14	**135**	122
Cash and cash equivalents	15	**3,020**	72
Total current assets		**12,468**	13,200
Total assets		**29,582**	30,931
Current liabilities			
Trade and other payables	16	**(647)**	(1,213)
Interest bearing loans and borrowings	17	**(360)**	(1,503)
Total current liabilities		**(1,007)**	(2,716)
Non-current liabilities			
Interest bearing loans and borrowings	17	**(4,020)**	(4,120)
Total liabilities		**(5,027)**	(6,836)
Net assets		**24,555**	24,095
Equity			
Issued share capital	21	**2,357**	2,357
Capital redemption reserve	22	**175**	175
Share premium account	22	**2,745**	2,745
Retained earnings		**19,278**	18,818
Total equity attributable to equity holders of the parent Company		**24,555**	24,095
NET ASSET VALUE PER SHARE		**208.4p**	204.5p

The financial statements were approved by the board of directors on 22 December 2021 and signed on its behalf by:

I D Lowe
Director
The notes on pages 47 - 67 form an integral part of these financial statements.

Consolidated statement of changes in equity as at 30 June 2021

	Issued share capital £000	**Capital redemption reserve £000**	**Share premium account £000**	**Retained earnings £000**	**Total £000**
At 1 July 2019	2,357	175	2,745	18,723	24,000
Profit and total comprehensive income for the year	-	-	-	95	95
At 30 June 2020	2,357	175	2,745	18,818	24,095

Profit and total comprehensive income for the year	**-**	**-**	**-**	**460**	**460**
At 30 June 2021	**2,357**	**175**	**2,745**	**19,278**	**24,555**
	======	======	======	======	======

Consolidated statement of cash flows for the year ended 30 June 2021

	Note	**2021 £000**	2020 £000
Cash flows from operating activities			
Profit for the year		**460**	95
Adjustments for:			
Net loss on sale of investment property		**151**	-
Net gains on revaluation of investment properties		**(690)**	(250)
Depreciation		**1**	5
Loss on sale of fixed assets		**1**	-
Net finance expense		**137**	29
Net operating cash flows before movements in working capital		**60**	(121)
Decrease/(Increase) in trading properties		**3,693**	(608)
(Increase)/decrease in trade and other receivables		**(13)**	29
(Decrease)/increase in trade and other payables		**(370)**	(22)
Cash generated from/(absorbed by) operations		**3,370**	(722)
Interest paid		**(333)**	-
Net cash inflow/(outflow) from operating activities		**3,037**	(722)
Investing activities			
Proceeds from sale of investment properties		**1,149**	-
Proceeds from sale of fixed assets		**5**	-
Acquisition of property, plant and equipment		**-**	(9)
Cash flows generated from/(absorbed by) investing activities		**1,154**	(9)
Financing activities			
(Decrease)/increase in borrowings		**(1,243)**	672
Cash flows (used)/generated from financing activities		**(1,243)**	672

Net increase/(decrease) in cash and cash equivalents	**2,948**	**(59)**
Cash and cash equivalents at beginning of year	**72**	131
Cash and cash equivalents at end of year	**3,020**	72

Notes to the consolidated financial statements as at 30 June 2021

1 Reporting entity

Caledonian Trust PLC is a public company incorporated in England and domiciled in the United Kingdom. The consolidated financial statements of the company for the year ended 30 June 2021 comprise the Company and its subsidiaries as listed in note 7 in the parent Company's financial statements (together referred to as "the Group"). The Group's principal activities are the holding of property for both investment and development purposes. The registered office is St Ann's Wharf, 112 Quayside, Newcastle upon Tyne, NE99 1SB and the principal place of business is 61a North Castle Street, Edinburgh EH2 3LJ.

2 Statement of Compliance

The Group financial statements have been prepared and approved by the directors in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006. The company has elected to prepare its parent Company financial statements in accordance with International Accounting Standards; these are presented on pages 68 to 87.

3 Basis of preparation

The financial statements are prepared on the historical cost basis except for investments and investment properties which are measured at their fair value.

The preparation of the financial statements in conformity with International Accounting Standards requires the directors to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

These financial statements have been presented in pounds sterling which is the functional currency of all companies within the group. All financial information has been rounded to the nearest thousand pounds.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement on pages 2 to 19. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in note 18 to the consolidated financial statements.

In addition, note 18 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk.

The Group and parent Company finance their day to day working capital requirements through related party loans and bank funding for specific development projects. A related party lender has indicated its willingness to continue to provide financial support and not to demand repayment of its principal loan during 2022.

The directors have prepared projected cash flow information for the period ending eighteen months from the date of their approval of these financial statements. These forecasts include the directors' assessment of the impact of the Covid-19 pandemic and assume the Group will make property sales in the normal course of business to provide sufficient cash inflows to allow the Group to continue to trade.

Should these sales not complete as planned, the directors are confident that they would be able to sell sufficient other properties within a short timescale to generate the income necessary to meet the Group's liabilities to third party creditors as they fall due.

For these reasons they continue to adopt the going concern basis in preparing the financial statements.

Areas of estimation uncertainty and critical judgements

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements is contained in the following notes:

Estimates

- *Valuation of investment properties (note 10)*
  The fair value has been assessed by the directors at 30 June 2021. The valuations take account of rental streams and comparable transactions. The valuations take cognisance of valuations provided by an external independent valuer at 30 June 2019. The non-executive director holds an appropriate profession qualification with current experience of the relevant markets. Valuations take account of the impact of Covid-19 which has not had a significant impact on them due to the nature of the properties and demand being maintained for small commercial properties and for quality housing.

- *Valuation of trading properties (note 13)*
  Trading properties are carried at the lower of cost and net realisable value. The net realisable value of such properties is based on the amount the Group is likely to achieve in a sale to a third party. This is then dependent on availability of planning consent and demand for sites which is influenced by the housing and property markets.

Judgements

- *Deferred Tax (note 20)*
  The Group's unrecognised deferred tax asset relates to tax losses being carried forward and to differences between the carrying value of investment properties and their original tax base. A decision has been taken not to recognise the asset on the basis of the uncertainty of the timing of future taxable profits.

4 Accounting policies

The accounting policies below have been applied consistently to all periods presented in these consolidated financial statements.

Basis of consolidation

The financial statements incorporate the financial statements of the parent Company and all its subsidiaries all of which have the same accounting date. Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to determine the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date it ceases. Inter-company balances are eliminated on consolidation.

Revenue
Turnover is the amount derived from ordinary activities, stated after any discounts, other sales taxes and net of VAT.

Revenue from the sale of investment and trading properties is recognised in the income statement on legal completion, being the date on which control passes to the buyer.

Rental income from properties leased out under operating leases is recognised in the income statement on a straight-line basis over the term of the lease. Costs of obtaining a lease and lease incentives granted are recognised as an integral part of total rental income and spread over the period from commencement of the lease to the earliest termination date on a straight-line basis.

Other income
Other income comprises income from agricultural land and other miscellaneous income recognised on receipt.

Finance income and expenses
Finance income and expenses comprise interest payable on bank loans and other borrowings. All borrowing costs are recognised in the income statement using the effective interest rate method. Interest income represents income on bank deposits using the effective interest rate method.

Taxation
Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case the charge / credit is recognised in equity. Current tax is the expected tax payable on taxable income for the current year, using tax rates enacted or substantively enacted at the reporting date, adjusted for prior years under and over provisions.

Deferred tax is calculated using the balance sheet liability method in respect of all temporary differences between the values at which assets and liabilities are recorded in the financial statements and their cost base for taxation purposes. Deferred tax includes current tax losses which can be offset against future capital gains. As the carrying value of the Group's investment properties is expected to be recovered through eventual sale rather than rentals, the tax base is calculated as the cost of the asset plus indexation. Indexation is taken into account to reduce any liability but does not create a deferred tax asset. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Investment properties
Investment properties are properties owned by the Group which are held either for long term rental growth or for capital appreciation or both. Properties transferred from trading properties to investment properties are revalued to fair value at the date on which the properties are transferred. When the Group begins to redevelop an existing investment property for continued future use as investment property, the property remains an investment property, which is measured based on the fair value model, and is not reclassified.

The cost of investment property is recognised on legal completion and includes the initial purchase price plus associated professional fees and historically also includes borrowing costs directly attributable to the acquisition. Subsequent expenditure on investment properties is only capitalised to the extent that future economic benefits will be realised.

Investment property is measured at fair value at each balance sheet date. The directors assess market value at each balance sheet date and external independent professional valuations are prepared at least once every three years. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arms-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Any gain or loss arising from a change in fair value is recognised in the income statement.

Tangible assets
Tangible assets are stated at cost, less accumulated depreciation and any provision for impairment. Depreciation is provided on all tangible assets at varying rates calculated to write off cost to the expected current residual value by equal annual instalments over their estimated useful economic lives. The periods used are:

Fixtures and fittings	-	3 years
Motor vehicles	-	3 years
Other equipment	-	5 years

Trading properties

Trading properties held for short term sale or with a view to subsequent disposal are stated at the lower of cost or net realisable value. Cost is calculated by reference to invoice price plus directly attributable professional fees. Interest and other finance costs on borrowings specific to a development are capitalised through stock and work in progress and transferred to cost of sales on disposal. Net realisable value is based on estimated selling price less estimated cost of disposal.

Financial instruments

The Group had no hedge relationships at 1 July 2019, 30 June 2020 or 30 June 2021.

Financial assets

Investments
The Group's investments in equity instruments are measured initially at fair value which is normally transaction price. Subsequent to initial recognition investments which can be measured reliably are measured at fair value with changes recognised in the profit or loss. Other investments are measured at cost less impairment in profit or loss. Dividend income is recognised when the Group has the right to receive dividends either when the share becomes ex dividend or the dividend has received shareholder approval.

Current receivables

Trade and other receivables with no stated interest rate and receivable within one year are recorded at transaction price including transaction costs. Assessments for impairment are performed at each reporting date and any losses are recognised in the statement of comprehensive income. Impairment reviews take into account changes in behaviours and the patterns of receipts from tenants on a case by case basis.

Cash and cash equivalents

Cash includes cash in hand, deposits held at call (or with a maturity of less than 3 months) with banks, and bank overdrafts. Bank overdrafts that are repayable on demand and which form an integral part of the Group's cash management are shown within current liabilities on the balance sheet and included with cash and cash equivalents for the purpose of the statement of cash flows.

Financial liabilities

Current payables

Trade payables are non-interest-bearing and are initially measured at fair value and thereafter at amortised cost.

Interest bearing loans and borrowings

Interest-bearing loans and bank overdrafts are initially carried at fair value less allowable transactions costs and then at amortised cost.

Changes in accounting policies

There are no new standards or amendments to existing standards which are effective for annual periods beginning on or after 1 July 2020 which are relevant to the Group. There are no new standards or amendments to existing standards or interpretations that are effective as at 30 June 2021 and relevant to the Group. After Brexit, the Group will continue to apply International Accounting Standards in conformity with the requirements of the Companies Act 2006.

Operating segments

The Group determines and presents operating segments based on the information that is internally provided to the Board of Directors ("The Board"), which is the Group's chief operating decision maker. The directors review information in relation to the Group's entire property portfolio, regardless of its type or location, and as such are of the opinion that there is only one reportable segment which is represented by the consolidated position presented in the primary statements.

5 Operating profit

	2021	2020
	£000	£000
Revenue comprises: -		
Rental income	**368**	446
Sale of properties	**4,186**	90
	4,554	536

All revenue is derived from the United Kingdom

	2021	2020
	£000	£000
The operating profit is stated after charging: -		
Depreciation	**1**	5
Amounts received by auditors and their associates in respect of:		
- Audit of these financial statements (Group and Company)	**17**	15
- Audit of financial statements of subsidiaries pursuant to legislation	**9**	8

6 Employees and employee benefits

	2021	2020
	£000	£000
Employee remuneration		
Wages and salaries	**177**	174
Social security costs	**12**	13
Other pension costs	**28**	29
	217	216
	======	======

Other pension costs represent contributions to defined contribution plans.

The average number of employees including executive directors during the year was as follows:

	No.	No.
Management	**2**	2
Administration	**3**	3
Other	**1**	2

	2021	2020
	6	7

Remuneration of directors	**2021 £000**	2020 £000
Directors’ emoluments	**69**	52
Company contributions to money purchase pension schemes	**25**	25

Director	Salary and Fees £000	Benefits £000	Pension Contributions £000	**2021 Total £000**	2020 Total £000
I D Lowe	-	6	-	**6**	6
M J Baynham	50	-	25	**75**	63
R J Pearson	8	-	-	**8**	8
	58	**6**	**25**	**89**	77

The Company does not operate a share option scheme or other long-term incentive plan.

Key management personnel are the directors, as listed above. The total remuneration of key management personnel, including social security cost, in the year was £94,067 (*2020: £85,010*).

Retirement benefits are accruing to the following number of directors under:	**2021**	2020
Money purchase schemes	**1**	1

7 Finance expenses

	2021 £000	2020 £000
Finance expenses		
Interest payable:		
- Other loan interest	**137**	29

8 Income tax

There was no current nor deferred tax charge in the current or preceding year.

Reconciliation of effective tax rate

	2021 £000	2020 £000
Profit before tax	**460**	95
Current tax at 19% *(2020: 19%)*	**87**	18

Effects of:

Expenses not deductible for tax purposes	**(10)**	(6)
Excess depreciation over capital allowances	**(6)**	(3)
Losses carried forward	**6**	38
Effect of indexation	**(57)**	-
Loss on sale of revalued investment property	**111**	-
Revaluation of property not taxable	**(131)**	(47)
Total tax charge	**-**	**-**

An increase in the UK corporation tax rate from 19% to 25% (effective from 1 April 2023) was substantively enacted on 24 May 2021. This will increase the Group's tax charge accordingly.

In the case of deferred tax in relation to investment property revaluation surpluses, the base cost used is historical book cost and includes allowances or deductions which may be available to reduce the actual tax liability which would crystallise in the event of a disposal of the asset (see note 20).

9 Earnings per share

Basic earnings per share is calculated by dividing the (loss)/profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period as follows:

	2021	2020
	£000	£000
Profit for financial period	**460**	95
	No.	No.
Weighted average no. of shares: for basic earnings per share and for diluted earnings per share	**11,783,577**	11,783,577
Basic earnings per share	**3.90 p**	0.81 p
Diluted earnings per share	**3.90 p**	0.81 p

The diluted figure per share is the same as the basic figure per share as there are no dilutive shares.

10 Investment properties

	2021	2020
	£000	£000
Valuation		
At 1 July	**17,720**	**17,470**
Disposed in year	**(1,300)**	**-**
Revaluation in year	**690**	**250**
Valuation at 30 June	**17,110**	**17,720**

The fair value of investment property at 30 June 2021 was determined by the directors based on changes in leases for one property and changes in market conditions for others. The non-executive director holds an appropriate professional qualification and has recent experience in the location and category of property being valued. Cognisance was also taken of the independent valuation by Montagu Evans, Chartered Surveyors as at 30 June 2019.

The valuation methodology applied by the directors and the external valuers was in accordance with the RICS Valuation Global Standards July 2017 which is consistent with the required IFRS 13 methodology. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market sector participants at the measurement date. The properties were valued individually and not as part of a portfolio.

The 'review of activities' and 'property prospects' within the Chairman's statement provides commentary on the Group's properties.

The historical cost of investment properties held at 30 June 2021 is £8,805,509 (2020: £9,521,406). The cumulative amount of interest capitalised and included within historical cost in respect of the Group's investment properties is £451,000 (2020: £451,000).

Valuations were based on vacant possession, rental yields or residual (development) appraisal rather than investment income in order to achieve the highest and best use value. To obtain the residual valuation the end development value is discounted by profit for a developer and cost to build to reach the base estimated market value of the investment. Only two properties were valued using an appropriate yield with allowance for letting voids, rent free periods and letting/holding costs for vacant accommodation and early lease expiries/break options, together with a deduction for purchaser's acquisition costs in accordance with market practice. The resulting net yields have also been assessed as a useful benchmark. Yields of 8.25% and 9.25% were applied respectively.

Assuming all else stayed the same, a decrease in net rental income or estimated future rent will result in a decrease in the fair value whereas a decrease in the yields will result in an increase in fair value. A decrease of 1% in the yields would result in an increase in valuation of £224,000 (*2020: £160,000*). An increase of 1% in the yields would result in a decrease in the fair value of £171,000 (*2020: £160,000*).

All the investment properties have been categorised as Level 2 in both years as defined by IFRS 13 Fair Value Measurement. Level 2 means that the valuation is based on inputs other than quoted prices that are observable for the asset, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

The amount of unrealised gains or losses on investment properties is charged to the statement of comprehensive income as the movement in fair value of investment property. For the year to 30 June 2021 this was a fair value profit of £690,000 *(2020: profit £250,000).* During the year ended 30 June 2021, an investment property was sold along with several stock properties, together comprising Ardpatrick Estate, in a single transaction. The price allocated to the investment property realised a net loss on sale of £151,000. There were no realised gains or losses on the disposal of investment properties in the year ended 30 June 2020.

The valuations take account of the impact of Covid-19 which has not had a significant impact on the value of the Group's investment properties due to the nature of the properties and demand being maintained for small commercial properties and for quality housing.

11 Plant and equipment

	Motor Vehicles £000	Fixtures and fittings £000	Other equipment £000	Total £000
Cost				
At 30 June 2019	20	16	72	108
Disposals in year	(8)	-	-	(8)
Additions in year	9	-	-	9
At 30 June 2020	21	16	72	109

Depreciation				
At 30 June 2019	19	16	67	102
Disposals in year	(8)	-	-	(8)
Charge for year	3	-	2	5
At 30 June 2020	14	16	69	99
Net book value				
At 30 June 2020	7	-	3	10

	Motor Vehicles £000	**Fixtures and fittings £000**	**Other equipment £000**	**Total £000**
Cost				
At 30 June 2020	21	16	72	109
Disposals in year	(20)	(1)	(3)	(24)
At 30 June 2021	1	15	69	85
Depreciation				
At 30 June 2020	14	16	69	**99**
Disposals in year	(13)	(1)	(4)	(18)
Charge for year	-	-	1	1
At 30 June 2021	1	15	66	82
Net book value				
At 30 June 2021	**-**	**-**	**3**	**3**

12 Investments

	2021 £000	2020 £000
Listed investments	**1**	1
	======	======

13 Trading properties

	2021 £000	2020 £000
At start of year	**13,006**	12,398
Additions	**237**	690
Sold in year	**(3,930)**	(82)
At end of year	**9,313**	13,006
	========	========

Finance costs related to borrowings specifically for a development are included in the cost of developments. At 30 June 2021 the total finance costs included in stock and work in progress was £Nil (*2020: £117,000*).

14 Trade and other receivables

	2021	2020
	£000	£000
Amounts falling due within one year		
Other debtors	**108**	89
Prepayments and accrued income	**27**	33
	135	122

The Group's exposure to credit risks and impairment losses relating to trade receivables is given in note 18.

15 Cash and cash equivalents

	2021	2020
	£000	£000
Cash	**3,020**	72

Cash and cash equivalents comprise cash at bank and in hand. Cash deposits are held with UK banks. The carrying amount of cash equivalents approximates to their fair values. The Company's exposure to credit risk on cash and cash equivalents is regularly monitored (note 18).

16 Trade and other payables

	2021	2020
	£000	£000
Trade creditors	**54**	133
Other creditors including taxation	**13**	100
Accruals and deferred income	**580**	980
	647	1,213

The Group's exposure to currency and liquidity risk relating to trade payables is disclosed in note 18.

17 Other interest bearing loans and borrowings

The Group's interest bearing loans and borrowings are measured at amortised cost. More information about the Group's exposure to interest rate risk and liquidity risk is given in note 18.

Current liabilities

	2021	2020
	£000	£000
Unsecured loan	**360**	360
Secured development loan	**-**	1,143
	360	1,503
Non-current liabilities		
Unsecured loans	**4,020**	4,120

Net debt reconciliation

	2021 £000	2020 £000
Cash and cash equivalents	**3,020**	72
Liquid investments	**1**	1
Borrowings – repayable with one year	**(360)**	(1,503)
Borrowings – repayable after one year	**(4,020)**	(4,120)
Net debt	**(1,359)**	(5,550)

	2021 £000	2020 £000
Cash and liquid investments	**3,021**	73
Gross debt – variable interest rates	**(4,380)**	(5,623)
Net debt	**(1,359)**	(5,550)

	Cash/bank overdraft £000	Liquid investments £000	Borrowing due within 1 year £000	Borrowing due after 1 year £000	Total £000
Net debt at 30 June 2019	131	1	(881)	(4,070)	(4,819)
Cashflows	(59)	-	(622)	(50)	(731)
Net debt at 30 June 2020	72	1	(1,503)	(4,120)	(5,550)
Cashflows	2,948	-	1,143	100	4,191
Net debt at 30 June 2021	**3,020**	**1**	**(360)**	**(4,020)**	**(1,359)**

Terms and debt repayment schedule
Terms and conditions of outstanding loans were as follows:

	Currency	Nominal interest rate	2021 Fair value £000	2021 Carrying amount £000	2020 Fair value £000	2020 Carrying amount £000
Unsecured loan	GBP	Base +3%	**4,020**	**4,020**	**4,020**	**4,020**
Unsecured development loan	GBP	Base +0.5%	**360**	**360**	**360**	**360**
Unsecured loan	GBP	Base +3%	**-**	**-**	**100**	**100**
Secured bank loan	GBP	Base + 5.1%	**-**	**-**	**1,143**	**1,143**
			4,380	**4,380**	5,623	5,623

The unsecured loan of £4,020,000 is from Leafrealm Limited and is repayable in 12 months and one day after the giving of notice by the lender. Interest is charged at 3% over Bank of Scotland base rate but the lender waived its right to the margin over base rate until 30 June 2020. The margin applied with effect from 1 July 2020 in line with the terms of the loan.

The short-term unsecured development loan of £360,000 is from Leafrealm Limited and is repayable after the disposal of Phase 3 of the Brunstane development. Interest is charged at a margin of 0.5% over Bank of Scotland base rate.

The unsecured loan of £99,999 was repaid during the year in line with its terms. Interest was charged at a margin of 3% over Bank of Scotland base rate.

The bank loan was secured by a standard security over one of a subsidiary's developments, by a floating charge over the assets of that subsidiary and by a limited guarantee by Caledonian Trust PLC. The loan was repaid during the year. Interest was charged at 5.1% over Bank of Scotland base rate.

The weighted average interest rate of the floating rate borrowings was 3.3% *(2020: 3.9%)*. As set out above, a lender varied its right to the margin of interest above base rate until 30 June 2020 and so the rate of interest charged in that year was 1.64%.

18 Financial instruments

Fair values

Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

	2021		2020	
	Fair value	**Carrying amount**	Fair value	Carrying amount
	£000	**£000**	£000	£000
Trade and other receivables	**108**	**108**	89	89
Cash and cash equivalents	**3,020**	**3,020**	72	72
	3,128	**3,128**	161	161
Loans from related parties	**4,380**	**4,380**	4,480	4,480
Bank loan	**-**	**-**	1,143	1,143
Trade and other payables	**639**	**639**	1,196	1,196
	5,019	**5,019**	6,819	6,819

Estimation of fair values

The following methods and assumptions were used to estimate the fair values shown above:

Trade and other receivables/payables – the fair value of receivables and payables with a remaining life of less than one year is deemed to be the same as the book value.

Cash and cash equivalents – the fair value is deemed to be the same as the carrying amount due to the short maturity of these instruments.

Other loans – the fair value is calculated by discounting the expected future cashflows at prevailing interest rates.

Overview of risks from its use of financial instruments

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework and oversees compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

The Board's policy is to maintain a strong capital base so as to cover all liabilities and to maintain the business and to sustain its development.

The Board of Directors also monitors the level of dividends to ordinary shareholders.

For the purposes of the Group's capital management, capital includes issued share capital and share premium account and all other equity reserves attributable to the equity holders. There were no changes in the Group's approach to capital management during the year.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

The Group's principal financial instruments comprise cash and short term deposits. The main purpose of these financial instruments is to finance the Group's operations.

As the Group operates wholly within the United Kingdom, there is currently no exposure to currency risk.

The main risks arising from the Group's financial instruments are interest rate risks and liquidity risks. The board reviews and agrees policies for managing each of these risks, which are summarised below:

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers, cash held at banks and its investments.

Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each tenant. The majority of rental payments are received in advance which reduces the Group's exposure to credit risk on trade receivables.

Other receivables

Other receivables consist of amounts due from tenants and purchasers of investment property along with a balance due from a company in which the Group holds a minority investment.

Credit risk (continued)

Investments

The Group does not actively trade in equity investments.

Bank facilities

One subsidiary had a bank facility to fund a specific development. The facility amounted to £1,415,000 of which £1,143,000 had been drawn down at 30 June 2020 and it was repaid during the year ended 30 June 2021.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Carrying value	
	2021	2020
	£000	£000
Investments	**1**	1
Other receivables	**108**	89
Cash and cash equivalents	**3,020**	72
	3,129	162
	=======	=======

The Group made an allowance for impairment on trade receivables of £Nil (*2020: £11,000*). As at 30 June 2021, trade receivables of £74,000 (*2020: £52,000*) were past due but not impaired. These are long standing tenants of the Group and the indications are that they will meet their payment obligations for trade receivables which are recognised in the balance sheet that are past due and unprovided. The ageing analysis of these trade receivables is as follows:

Number of days past due date	**2021 £000**	2020 £000
Less than 30 days	**25**	18
Between 30 and 60 days	**8**	17
Between 60 and 90 days	**7**	2
Over 90 days	**34**	15
	74	52
	=======	=======

Credit risk for trade receivables at the reporting date was all in relation to property tenants in United Kingdom. The Group's exposure is spread across a number of customers and sums past due relate to 11 tenants (*2020: 9 tenants*). One tenant accounts for 36% (*2020: 54%*) of the trade receivables past due by more than 90 days.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking damage to the Group's reputation. Whilst the directors cannot envisage all possible circumstances, the directors believe that, taking account of reasonably foreseeable adverse movements in rental income, interest or property values, the Group has sufficient resources available to enable it to do so.

The Group's exposure to liquidity risk is given below

30 June 2021 £'000	**Carrying amount**	**Contractual cash flows**	**6 months or less**	**6-12 months**	**2-5 years**
Unsecured loan	4,020	4,364	219	125	4,020
Unsecured development loan	360	362	1	361	-
Trade and other payables	639	639	639	-	-

30 June 2020 £'000	**Carrying amount**	**Contractual cash flows**	**6 months or less**	**6-12 months**	**2-5 years**

Unsecured loan	4,020	4,177	95	62	4,020
Unsecured development loan	360	375	-	375	-
Unsecured loan	100	124	20	2	102
Secured bank loan	1,143	1,295	934	361	-
Trade and other payables	1,196	1,196	1,196	-	-

Market risk

Market risk is the risk that changes in market prices, such as interest rates, will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Interest rate risk

The Group borrowings are at floating rates of interest based on Bank of Scotland base rate.

The interest rate profile of the Group's borrowings as at the year-end was as follows:

	2021	2020
	£000	£000
Unsecured loan – Base +3%	**4,020**	4,020
Unsecured loan – Base +0.5%	**360**	360
Unsecured loan – Base +3%	**-**	100
Secured loan – Base +5.1%	**-**	1,143
	=====	=====

A 1% movement in interest rates would be expected to change the Group's annual net interest charge by £43,800 *(2020: £56,230)*.

19 Operating leases

Leases as lessors

The Group leases out its investment properties under operating leases. Operating leases are those in which substantially all the risks and rewards of ownership are retained by the lessor. Payments, including prepayments made under operating leases (net of any incentives such as rent free periods) are charged to the income statement on a straight line basis over the period of the lease. The future minimum receipts under non-cancellable operating leases are as follows:

	2021	2020
	£000	£000
Less than one year	**179**	204
Between one and five years	**407**	199
Greater than five years	**316**	137
	902	540
	=====	=====

The amounts recognised in income and costs for operating leases are shown on the face of the income statement.

20 Deferred tax

At 30 June 2021, the Group has a potential deferred tax asset of £1,488,000 *(2020: £1,174,000)* of which £79,000 *(2020: £84,000)* relates to differences between the carrying value of investment properties and the tax base. In addition, the Group has tax losses which would result in a deferred tax asset of £1,409,000 (*2020: £1,090,000*). This has not been recognised due to the uncertainty over the timing of future taxable profits.

Movement in unrecognised deferred tax asset

	Balance 1 July 19 at 17%	Additions/ (reductions)	Balance 30 June 20 at 19%	Additions/ (reductions)	**Balance 30 June 21 at 25%**
	£000	£000	£000	£000	**£000**
Investment properties	75	9	84	(5)	**79**
Tax losses	942	148	1,090	319	**1,409**
Total	1,017	157	1,174	314	**1,488**

21 Issued share capital

	30 June 2021		30 June 2020	
	No	**£000**	No.	£000
Authorised share capital				
Ordinary shares of 20p each	**20,000,000**	**4,000**	20,000,000	4,000
Issued and fully paid				
Ordinary shares of 20p each	**11,783,577**	**2,357**	11,783,577	2,357

Holders of ordinary shares are entitled to dividends declared from time to time, to one vote per ordinary share and a share of any distribution of the Company's assets.

22 Capital and reserves

The capital redemption reserve arose in prior years on redemption of share capital. The reserve is not distributable.

The share premium account is used to record the issue of share capital above par value. This reserve is not distributable.

23 Ultimate controlling party

The ultimate controlling party is Mr I D Lowe.

24 Related parties

Transactions with key management personnel

Transactions with key management personnel consist of compensation for services provided to the Company. Details are given in note 6.

Lowe Dalkeith Farm, a business wholly owned by I D Lowe, used land at one of the Group's investment properties as grazings for its farming operation. Rent was agreed and paid at £1,575 per annum (*2020 : £1,575*).

Other related party transactions

The parent company has a related party relationship with its subsidiaries.

The Group and Company has an unsecured loan due to Leafrealm Limited, a company of which I D Lowe is the controlling shareholder. The balance due to this party at 30 June 2021 was £4,020,000 (*2020: £4,020,000*) with interest payable at 3% over Bank of Scotland base rate per annum. Leafrealm Limited varied its right to the margin of interest over base rate until 30 June 2020. The margin applies with effect from 1 July 2020 in line with the terms of the loan. Interest charged in the year amounted to £124,620 *(2020: £22,069).*

The Company also has an unsecured development loan due to Leafrealm Limited, a company of which I D Lowe is the controlling shareholder. The balance due to this party at 30 June 2021 was £360,000 (*2020: £360,000)* with interest payable at a margin of 0.5% over base rate. Interest charged in the year amounted to £2,160 *(2020: £3,806).*

The Company also had an unsecured facility during the year due to Leafrealm Limited, a company of which I D Lowe is the controlling shareholder. The maximum balance drawn down during the year was £115,000 with interest payable at 8% per annum. Interest charged in the year amounted to £5,508 *(2020: £Nil)* and the facility was repaid in full in line with its terms during the year.

The Company had an unsecured loan on normal commercial terms from Mrs V Baynham, the wife of a director. The balance due to this party at 30 June 2020 was £99,999 with interest payable at 3% over Bank of Scotland base rate per annum. Interest charged in the year amounted to £2,421 *(2020: £3,564).* The loan was repaid in line with its terms during the year ended 30 June 2021.

Contracting work on certain development and investment property sites has been undertaken by Leafrealm Land Limited, a company under the control of I D Lowe. The value of the work done by Leafrealm Land Limited charged in the accounts for the year to 30 June 2021 amounts to £2,311 (*2020: £2,333*) at rates which do not exceed normal commercial rates. The balance payable to Leafrealm Land Limited in respect of invoices for this work at 30 June 2021 was £Nil (*2020: £91,638*).

Lowe Dalkeith Farms, a business wholly owned by I D Lowe, provided equipment used in the maintenance of the Group's investment or development sites. The value of the equipment hire from Lowe Dalkeith Farms charged in the accounts for the year to 30 June 2021 amounts to £2,068 (*2020: £Nil*) at rates which do not exceed normal commercial rates. The balance payable to Lowe Dalkeith Farms in respect of invoices for this work at 30 June 2021 was £Nil (*2020: £Nil*).

For a full listing of investments and subsidiary undertakings please see note 7 of the parent Company financial statements.