



ROYAL HOSPITAL CHELSEA

ANNUAL REPORT

AND

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2016

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Officers and Commissioners

Chairman of the Board of Commissioners

HM Paymaster General

Ex-officio Commissioners

HM Paymaster General – Rt Hon M Hancock MP
Minister of State for the Armed Forces – P Mordaunt MP
Minister for Defence Personnel, Welfare and Veterans – M Lancaster TD MP
Director Resources and Command and Secretary (Army) – D Stephens Esq
Director General of Army Medical Services – Major General J Rowan OBE QHS (appointment ended 31 January 2016)
Assistant Chief of the General Staff – Major General DM Cullen OBE (appointment ended 6 December 2015)
Assistant Chief of the General Staff – Major General N Welch OBE (appointed 7 December 2015)
Governor, Royal Hospital Chelsea – General Sir Reddy Watt KCB KCVO CBE DL

Specially Appointed Commissioners

M Waterson Esq CBE (appointment ended 30 September 2015)
S Corbyn Esq
A Titchmarsh Esq MBE VMH DL (appointment ended 31 March 2016)
J Fenwick Esq QC (*Deputy Chairman*)
Professor Lord Kakkar PC
FDS Rosier Esq
Mrs A Gillibrand
Dame Barbara Monroe DBE
M Gallagher Esq
Charles Lewington Esq OBE
Ms J Cleary (appointed 1 October 2015)
Dr R Bowdler (appointed 1 April 2016)

Accounting Officer & Chief Executive Officer

Major General D McDowall CBE (appointment ended 27 July 2015)
Gary Lashko (appointed 1 February 2016)

Secretary

PWD Hatt Esq (appointment ended 31 March 2016 - also Accounting Officer from 21 September 2015 – 31 January 2016)

Registered address

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Auditors

The Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
London SW1W 9SP

Subsidiary auditor

PKF Littlejohn LLP
1 Westferry Circus
London E14 4HD

Internal auditor	Crowe, Clarke, Whitehill LLP St Bride's House 10 Salisbury Square London EC4Y 8EH
Legal advisers	Taylor Wessing 5 New Street Square London EC4A 3TW Boodle Hatfield 89 New Bond Street London W1S 1DA Wolters Kluwer 145 London Road Kingston upon Thames KT2 6SR
Investment manager	Sarasin & Partners LLP Juxon House 100 St. Paul's Churchyard London EC4M 8BU
Chartered surveyor	Savills (UK) Limited 33 Margaret Street London W1G 0JD
Property maintenance	CBRE Managed Services Ltd 57 Southwark Street London SE1 IRU
Bankers	Barclays Bank plc 1 Churchill Place London E14 5HP Santander UK plc 2 Triton Square Regent's Place London NW1 3AN

Annual Report of the Commissioners

Introduction

The Royal Hospital Chelsea (RHC) was founded by King Charles II in 1682 “as a place of refuge and shelter for such Land Soldiers as are or shall be old, lame or infirm in the service of the Crown”. Sir Christopher Wren was entrusted with the design of the building and it was ten years later, in the spring of 1692, that the first In-Pensioner took up residence. It provides the same care today and plans to continue to do so.

This report should be read in conjunction with the Governance Statement on page 11 which outlines in detail the structure and governance of the RHC and its Board.

Governing documents and charitable objectives

The RHC’s governing document consists of Letters Patent from the Crown, which vest responsibility for its management in a Board of Commissioners. The current Letters Patent were issued on 21 November 2003. The RHC’s governance arrangements are similar to those of registered charities, and it aims to operate according to best practice for charitable bodies as set out by the Charity Commission. The RHC is not registered with the Charity Commission, but is recognised as having Charitable Status by HMRC (reference number X8366).

The two principal objectives of the RHC are the care of the In-Pensioners and the conservation of its historic buildings and grounds. The RHC receives an annual grant (known as “Grant in Aid”) from the Ministry of Defence towards the cost of caring for the In-Pensioners (who surrender their army pensions on admission). The grant is governed by a financial framework document signed on 21 October 2014. In-Pensioners not in receipt of an army pension, or whose pensions are very small, pay top-up charges on a sliding scale dependent upon their income. This income is recorded under “other income” in the Statement of Financial Activities.

The Grant in Aid covers a large part, but by no means all, of the costs of medical care for In-Pensioners, staff costs and other welfare costs. It also covers maintenance of the RHC’s buildings and the cost of fuel and lighting, food, furniture, and clothing.

The Grant in Aid does not cover the cost of major capital projects or the upkeep of the grounds. These costs are paid out of the Army Prize Money and Legacy Fund, a separate fund held by the Commissioners. That fund also provides additional support to the In-Pensioners which could not reasonably be expected to come from public funds, for example television services. It also pays for those maintenance and other running costs that are not covered by the Grant in Aid.

The RHC is staffed for 24-hours a day, 365 days of the year. There is always someone on hand to provide assistance for In-Pensioners if required. The RHC has 270 staff (2015: 239) of whom 104 (2015: 85) are medical, nursing and care staff.

Public benefit statement

The Commissioners have considered the Charity Commission’s general guidance on Public Benefit when reviewing the RHC’s aims and objectives and in planning its future activities.

The RHC provides sheltered accommodation for Army veterans aged 65 or over and has care home facilities (the Margaret Thatcher Infirmary) for use by former RHC occupants of the sheltered accommodation, and for others who may, exceptionally, be admitted directly into Infirmary care. The RHC provides every opportunity for residents to engage in a range of activities, as well as participating in representational and ceremonial activities and establishing constructive links with today’s soldiers and the wider veteran community. It also operates an outreach programme which works with other groups of veterans in need of support, including those who are in prison or homeless.

In recent years the RHC has carried out a major programme of works to modernise the In-Pensioners’ accommodation so that it remains fit for purpose in the 21st Century, and to restore and maintain the heritage buildings and grounds. The Long Wards have been remodelled and refurbished and other areas of the RHC, including the Great Hall and Chapel, have been restored. The bulk of the work is now finished, although repairs to the roofs and the Chapel restoration project were still in progress at the end of the 2015-16 financial year.

Monitoring of performance

The Commissioners review the performance of the RHC at their quarterly meetings and in meetings of the six subordinate committees. At executive level the Management Board meets monthly to review performance against key performance indicators, corporate objectives, and to assess risk.

The Commissioners undertook a review of the corporate governance of the RHC in 2015 designed to assess and improve the effectiveness of the Board’s performance overseeing the work of the RHC as a whole. The outcome of this review was

reported to the Commissioners in July 2015. The report found that the RHC's governance procedures generally worked well but the corporate structure and some internal procedures were quite complex and would benefit from clarification and simplification. As a result of this it has been decided to reduce the number of trading subsidiary companies from two to one, with Tricorne Traders Ltd ceasing to trade from 1st April 2016. The Terms of Reference of the sub-committees of the Board have also been revised and simplified.

Employees

Employees are kept well informed of the performance and objectives of the RHC through its Staff Consultation Group, regular staff bulletins and briefing by line management. Employees are given the opportunity to develop and progress according to their ability.

Appropriate policies are in place to ensure the RHC complies with the Equality Act 2010 and that full and fair consideration is given to all applicants for all job vacancies.

Volunteers

The RHC relies greatly on help from volunteers. Many are private individuals who visit the Infirmary, take In-Pensioners out for trips and assist in accompanying In-Pensioners when they go to neighbouring hospitals. It has not been possible to put a value on the contribution of the RHC's volunteers as the number of hours they put in is not formally recorded (and many do not wish this to be counted). Volunteers are, as appropriate, cleared to work with vulnerable adults.

Future Strategy

The RHC's high-level objectives – to provide care for the In-Pensioners and safeguard the heritage of the buildings and grounds – remain unchanged. However the new Chief Executive, Gary Lashko, who took up his post on 1 February 2016, has begun a review of internal structures and processes.

To start the process a new vision and mission statement for the RHC has been agreed. The statement reads:-

Vision – To remain a much-valued and loved national institution, providing the highest standards of support to the army veteran community.

Mission – To provide army veterans with the support and comradeship they need in recognition of their service to the Nation, and to safeguard their historic home for the veterans of tomorrow.

The strategy calls for the maintenance of a strong military ethos at the RHC, whilst at the same time taking steps to ensure high-quality care for In-Pensioners, maintain long-term financial sustainability and continuing the RHC's strong relationship with the Army, the MoD and other service charities.

In recent months a new fundraising strategy has been developed and the RHC is in the process of appointing a Director of Fundraising and Communications. An outside firm of consultants, Civis, has been employed to review the RHC's care services and their report was received in the Summer of 2016. It recommended a reduction in the number of registered care beds in the MTI and increased domiciliary and social care support for In-Pensioners. The recommendations have been accepted and are in the process of being implemented.

Review of achievements and performance for the year 2015/2016

Executive Summary 2015 – 16

2015-16 saw significant changes at managerial level at the RHC. The former Chief Executive, Maj Gen David McDowall, left to return to defence industry on 27 July 2015 and his successor, Gary Lashko, joined on 1 February 2016. In the interim period the Secretary, Paul Hatt, acted as Management Co-Ordinator and Chair of the Management Board and shared the responsibility of managerial leadership with the Governor. This arrangement enabled the RHC's business to be taken forward in the absence of a Chief Executive Officer. The RHC continued to work toward the High Level Standing Objectives and the Key Performance Indicators which had been agreed in the previous year. A number of longer-term initiatives were formulated and detailed work on these began after the arrival of the new CEO. Progress toward the High Level Standing Objectives was as follows:

Objective 1: Providing Additional Services

Extra funding has been used to secure an increase in nursing and care staff to enable a more robust provision of domiciliary care to the Long Wards and to increase the capacity of nursing beds in the Infirmary. We have continued to work with the Royal British Legion (RBL) to provide a 'hub' for veterans on our campus. The hub is working well and is manned by RBL staff on a regular basis. In the meantime much continues to be done to help other charities including the Army Benevolent Fund (ABF) The Soldiers' Charity, Combat Stress, and the Gurkha Welfare Trust. Links with SSAFA (formerly the Soldiers, Sailors, Airmen & Families' Association) are healthy and we support each of their caseworker courses and have admitted In-Pensioners into the RHC through this link. However, Gardening Leave, with which the RHC had strong links and which made use of an area of the grounds, was forced to close during the year as it had insufficient funds to continue.

Objective 2: Long Ward modernisation programme

The final phase of the Long Wards project, the West Wing and North West Pavilion, was completed within the agreed budget 7 months ahead of schedule with occupation in October 2015. The modernised accommodation continues to be strongly welcomed by the In-Pensioners. The temporary accommodation in Light Horse Court was removed in January 2016 and the area has been reinstated to complete the project.

Objective 3: Estate Development

Work has continued over the past year to make solid inroads into the estate development plan. The Prince of Wales Yard project was completed on time and budget in December 2015. Work on the South Terrace started in July 2015 and was completed, with the final surface for the paths laid in Summer 2016. Work on the roofs is continuing and expected to be completed in early 2017. The Wren Chapel and the pavilion in Burton Court have been refurbished – both these projects were completed in the Spring. The RHC is continuing efforts to identify a suitable use and occupier for the Soane Stable Block, which has not yet been refurbished.

Objective 4: Safeguarding the heritage

Preservation of the historic buildings and grounds remains fundamental to the RHC. The role of Heritage Manager was created in 2014 to oversee the care and preservation of the RHC artefacts and art work and daily maintenance of heritage related matters. This coupled with major infrastructure work that has included the renovation of the lead roofs and refurbishment of the Great Hall and Chapel has ensured that the heritage of the site is being safeguarded. During 2015-16 a 20-year maintenance plan was drawn up to inform future planning and budgeting.

Objective 5: Internal efficiency

During the year it became apparent that the RHC's costs were increasing more quickly than its income. This trend will continue into 2016-17. This trend is partly due to the withdrawal of the "contracted out" system of National Insurance contributions which will raise the cost of the employer's national insurance contributions paid by the RHC. Costs have also risen due to increased staffing levels which followed the expansion of the RHC's domiciliary care service. This is being addressed in 2016-17 following the Civis report (see p6) and it is expected that reductions will be found.

In order to address the deficit the Management Board recommended a series of short-term economy measures to the Board of Commissioners and these were agreed. The Board noted that costs had been on a rising trend for a number of years and action needed to be taken to reverse this trend. It was agreed that this would be a high priority for the incoming Chief Executive.

Other in-year priorities

Care, Nursing and GP Services.

Care and Nursing. We continue to comply with CQC's new Fundamental Standards. We consistently strive to maintain our beacon status of excellence in elderly care and to demonstrate through best practice our unique model of care at the Royal RHC. The Margaret Thatcher Infirmary was inspected by the CQC in the Autumn of 2016 and found provide "outstanding" care, one of very few facilities to receive this accolade.

GP Services. The partnership with Central Health, who run the RHC's hydrotherapy and physiotherapy services, has continued. The NHS income for the GP surgery is unpredictable as a result of continuing policy and budgetary changes within the NHS – in 2015-16 the RHC received £84k for this service.

The Medical Centre achieved 476.6 points out of a total of 480 available points in the Quality Outcomes Framework assessment for 2014-15 – the practice cannot achieve the full 560 points due to its specific patient group.

Business Development

Fundraising. The 'Friends of the RHC' ceased to be a separate charity and from 1st April 2015 formed part of the RHC Appeal's core fundraising activity. Additional resources have now been provided to increase voluntary income generated through pro-active fundraising appeals, corporate partnerships and increasing Friends membership numbers. A new post of Director of Fundraising and Communications has been created and at the time of writing steps are being taken to fill the position.

Events. The Events Department plus all commercial activities and the management of Burton Court are managed by the Quartermaster. During the year a more formalised charging structure for events and the use of Burton Court was brought in. This will allow the RHC to gauge the viability of its commercial activities and to ensure that they remain compatible with our primary objective of providing a fitting home to the In-Pensioners.

Reputation

The RHC has received overwhelmingly positive media coverage again this year. There was significant media coverage linked to commemorative events including the centenary of the Battle of the Somme. There were also several stories placed regarding fundraising for the RHC, helping to raise awareness of the charitable status of the organisation and the Appeal. Online presence has been further enhanced through improving social media profiles and increasing audience numbers and levels of engagement. Updated marketing literature was also produced for the Margaret Thatcher Infirmary and for Chelsea Pensioner admissions. We have established an in-house communications team to provide the resources necessary to support the marketing needs of all RHC departments. A new Director is being sought to head up our fundraising and communications operations (see "Fundraising" above).

Property Management

The new contract with the Royal Horticultural Society (RHS) for the Chelsea Flower Show has worked extremely well, as has regaining control of the South Grounds from the Royal Borough of Kensington and Chelsea. Formal leases and licences are now in place for all third parties who make use of facilities on our site, and this has proved to be highly beneficial to all parties. A tenants' schedule has also been established that allows for better management of all RHC property assets. The development of Gordon House continues and both the developer and the RHC have endeavoured to minimise disruption at the western side of the RHC site.

Charitable outreach

Our charitable outreach programme has continued, including support to a night shelter and prison visits and regular liaison with other military charities.

Financial review and results for the year

The total funding received from the Ministry of Defence was £11,875K (2015: £11,667K). Income from other sources, including fundraising activities, investments and donations was £7,928K. (2015: £7,789K). Total income was £19,803K, an increase of some £347K (2%) on 2015. This is due to increased income from donations, trading and fundraising activity, partly offset by a fall in investment income due to lower receipts from lease extension premiums.

Costs attributable to RHC's charitable activities were £19,686K (2015: £19,104K), an increase of £582K (3%). Other costs were £2,475K, (2015 £2,353K), an increase of £122k (5%). An exceptional charge of £111,787k arises due to the revaluation of the RHC's estate (see below) and the reclassification of past gains on investment property as unrestricted reserves and not revaluation reserves as required by FRS 102 (see note 29). Net expenditure, after movements on investments and the exceptional charge, was £94,915k (2015: net income of £6,552k). Taking into account other gains and losses, including the effect of the revaluation of the RHC's operational estate, total funds fell from £621,962K in 2015 to £260,379K (see below & notes 1 & 26).

Total funds donated through the Royal RHC Chelsea Appeal Ltd Group amounted to £3,647K (2015: £2,574K). Trading results of the subsidiaries are discussed below and further details are contained in note 10 to the accounts.

Valuation

The RHC's operational estate was revalued during the year by Savills, Chartered Surveyors. The surveyors advised that a "modern equivalent" valuation was the most appropriate basis for valuing most of the land and buildings. This is because the unique and historic nature of the RHC's estate means that a meaningful market value cannot be arrived at. Therefore it is appropriate to use the cost of building a "modern equivalent" and not the cost of replacing the existing historic buildings when valuing the assets for accounts purposes. This applies to all the RHC's operational land and buildings apart from the Margaret Thatcher Infirmary, which, as a modern purpose-built care home, is valued at market value (see also Note 1e to the accounts).

The values that have been arrived at by the latest valuation are much lower than the valuations shown in previous years. The bulk of this reduction is due to updating the valuation methodology from one based on replacing the operational estate as it currently stands to the "modern equivalent" basis, recognising that following substantial completion in 2015-16 of significant improvement works undertaken across the RHC's estate, if the Hospital were to be rebuilt it wouldn't necessarily be constructed or configured as it currently stands.. The value of the land is also greatly reduced following the issue of the Consolidated Local Plan for the Royal Borough of Kensington and Chelsea in July 2015, which clarifies that development of the RHC grounds will not be permitted. As such the valuation shown in previous years, which was on the basis of a notional development value, is not appropriate as no development would be possible.

Trading subsidiaries

Royal Hospital Chelsea Appeal Ltd Group

The RHC Appeal Group consists of a holding company and two trading subsidiaries. The holding company, which is also a registered charity, is RHC Appeal Ltd. The two trading subsidiaries are Tricorne Trading Ltd and Chelsea Pensioner (Royal Hospital) Ltd. The subsidiaries donate their profits to the parent company, which in turn makes donations to the RHC. At the end of the year Royal Hospital Chelsea Appeal Ltd Group held reserves of £3,705K (2015: £1,804K) of which £4K (2015: £6K) was restricted. During the year the subsidiaries donated a total of £3,647K (2015: £2,574K) to the RHC. With effect from 1st April 2016 the activities of Tricorne Traders Ltd were subsumed into Chelsea Pensioner (Royal Hospital) Ltd in order to simplify the RHC's corporate structure.

Gordon House (London) Ltd

Gordon House (London) Ltd was incorporated in 2012/13 in order to assist the Commissioners of the RHC with the sale of the lease of the property known as Gordon House, which was achieved in 2012/13. The subsidiary made a loss in 2015/16 and therefore has not gift-aided any of its income for the year to its parent undertaking the RHC. The proceeds of the sale of the lease have been used for capital works at the RHC, primarily the Long Ward modernisation programme.

Pension liability

Although most of the employees of the RHC are members of the Principal Civil Service Pension Scheme, some former Governors, Lieutenant Governors and Captains of Invalids are members of an unfunded defined benefit scheme which is paid out of current income. The scheme has 11 retired members (or their widows), and was closed to new entrants some years ago. The scheme is a final salary scheme with benefits based on number of years' service and final salary. Under Financial Reporting Standard (FRS)17: Retirement Benefits, there is a pension liability of £329K (2015: £372K) attributable to the Grant in Aid fund (see note 22).

Reserves policy

The RHC's reserves consist of its site and buildings, long term investments and surpluses generated through fundraising and trading. Most of these reserves are not liquid. The RHC holds reserves so that it can maintain its services to In-Pensioners and continue to protect the heritage of the Wren buildings and grounds in the event of an unforeseen loss of income. The income from investments is used to help fill the gap between the Grant in Aid received from the Ministry of Defence and the cost of the RHC's services to In-Pensioners. Reserves are also required to fund capital investment, since the Grant in Aid does not cover capital works.

The RHC's reserves policy is as follows:

- 1) The reserves represented by the site and buildings used for the RHC's operations cannot be realised and it is the RHC's duty to maintain these on behalf of current and future In-Pensioners and the nation;
- 2) The RHC's long term investments, including property not used for operational purposes, shall be managed in accordance with guidelines laid down by the Investment Committee in order to generate the maximum possible level of income consistent with a low level of risk to capital;
- 3) The RHC aims to hold free cash reserves covering at least six months' unrestricted current expenditure – this is designed to guard against any unforeseen loss of income or unexpected demands on resources which might arise. At 31st March 2016 free cash (excluding cash in the Gordon House fund and other restricted funds) was £11,028m representing approximately eight months' expenditure.

Investment policy

The Board of Commissioners has set an investment policy with the objective of providing capital growth in real terms over the longer term. The RHC's investments are currently managed by Sarasin & Partners LLP and the bulk of the funds are held in Sarasin's Alpha Common Investment Fund for Endowments.

The Commissioners require their investment manager to pay attention to the level of risk, the suitability of the class of investment and the need for diversification insofar as appropriate to the circumstances of the RHC.

Investment Objectives

- **Army Prize Money and Legacy Fund:** To achieve capital growth over the longer term with a medium level of risk. Dividend income will be re-invested.
- **Gordon House Fund:** To be invested on a short term basis to maximise income with no capital risk. This Fund will hold monies that will be required for capital investment in the short to medium term.

The RHC is not permitted to invest Grant in Aid funds. Further details on investments are contained in note 13 to the accounts.

Tangible fixed assets

The RHC's operational land and buildings were revalued during the year. The valuer, Savills, advised that the unique nature of the RHC's activity and the planning restrictions preventing any alternative use for its facilities meant that a market valuation could not be ascertained for the site and the heritage buildings. However, in the case of the MTI, a modern care home facility, a market value could be ascertained. Accordingly the site and the heritage buildings were valued on the basis of a "modern equivalent facility" which means that the valuer estimated the current cost of acquiring sufficient land and buildings required to provide 200 In-pensioner berths and the communal facilities currently provided by the RHC (dining hall, chapel etc). The MTI was valued on the basis of a market value arrived recommended by the valuer as the amount that could be expected to be received should the building be offered for sale on the open market.

Investment property was also revalued during the year. It was valued at £89,410K (2015: £70,300K) at the year-end.

In order to comply with FRS 30: Heritage Assets, exhibits were revalued in June 2011. The current value of Heritage Assets, including land and exhibits is £16,405K (2015: £16,075K). The exhibits are due to be valued again in 2016/17.

Plant machinery and equipment has a net book value of £2,526K (2015: £2,631K) and vehicles have a net book value of £147K (2015: £145K).

Audit arrangements

The consolidated accounts of the RHC were audited by the Comptroller and Auditor General in accordance with the Chelsea Hospital Act 1876. An audit fee of £44.5K has been charged for the group audit (2015: £40K) and is included in Governance costs. No non-audit work was carried out by the auditor in 2015-16.

At the time of approving the Financial Statements, so far as the Commissioners and Accounting Officer are aware, there is no relevant audit information of which the auditors are unaware; and the Commissioners and Accounting Officer have taken all

appropriate steps to make themselves aware of any relevant audit information and to establish that the external auditors are aware of that information.

Change in Accounting Officer

The CEO and Accounting Officer, Major General D McDowall CBE left the RHC on 27 July 2015. Maj Gen McDowall was succeeded as Accounting Officer by Paul Hatt Esq on 21 September 2015. Following an extensive search and selection process in which the RHC was assisted by Odgers Berndtson Mr Gary Lashko was appointed CEO and Accounting Officer and took up the position on 1 February 2016.

Gary Lashko
CEO & Accounting Officer
On behalf of the Board of Commissioners

31 January 2017

Governance Statement

Governance Framework

Governing Documents

The RHC's governing document consists of Letters Patent from the Crown, the current Letters Patent having been issued on 21 November 2003. This vests responsibility for the management of the RHC in a Board of Commissioners. The Paymaster General is formally the Chairman of the Board of Commissioners and Treasurer of the RHC's funds although in practice the Governor invariably takes the Chair at Board meetings. The RHC's governance arrangements are similar to those of registered charities, and it aims to operate according to best practice for charitable bodies as set out by the Charity Commission. The RHC is, however, exempt from the need to register with the Charity Commission, but is recognised as having Charitable Status by HMRC (reference number X8366).

Grant in Aid Framework Document

The RHC is an arms-length body linked to the Ministry of Defence and it receives Grant in Aid funding which is governed by a Financial Framework arrangement which outlines restrictions on the use of the funding and reporting requirements. This Framework includes the appointment of an Accounting Officer by letter of delegation from the Permanent Under-Secretary of the Ministry of Defence. The Accounting Officer is personally responsible for reporting to Parliament on the proper and efficient use of the Grant in Aid funds. The Accounting Officer, with the Board of Commissioners, also has responsibility for maintaining a sound system of internal controls that supports the achievement of aims and objectives set by the Board.

The Financial Framework was revised on 21 October 2014. The Chief Executive Officer changed during the year – Major General David McDowall left on 27 July 2015. There followed an external search process and Mr Gary Lashko took up the post on 1 February 2016. In the interim period Mr Paul Hatt, the RHC Secretary, acted as management co-ordinator and shared the responsibility of leading the RHC with the Governor.

Paul Hatt was appointed Accounting Officer from 21 September 2015 until 31 January 2016 pending the appointment of a new Chief Executive. Gary Lashko took over the role when he joined the RHC on 1 February 2016. As CEO Mr Lashko is fully aware of all current issues affecting RHC's governance arrangements and was briefed by Mr Hatt on developments prior to his appointment. In the light of this Mr Lashko has been able to form the reasonable view that the following paragraphs accurately reflect the governance of the RHC.

Charity Accounting and reporting responsibilities

The Royal RHC Chelsea complies in all material respects with the guidelines laid down in the Charities SORP 2015 (FRS102). To this end the Commissioners and the Accounting Officer are required to make a proper presentation of accounts for each financial year. The accounts are required to give a true and fair view of the state of affairs of the Charity at the year end, and of its incoming resources and application of resources for the financial year.

In preparing the accounts the Charity is required to:

- select suitable accounting policies, taking account of the relevant accounting and disclosure requirements and apply them consistently;
- observe the methods and principles of the Charities' SORP (FRS 102);
- make judgements and estimates that are reasonable and prudent;
- state whether applicable United Kingdom accounting standards are being followed, subject to any material departures disclosed and explained in the Financial Statements; and
- prepare the Financial Statements on a going concern basis unless it is inappropriate to presume that the Charity will continue in operation.

The Commissioners and Accounting Officer are responsible for ensuring that satisfactory accounting records are kept which are to disclose, with reasonable accuracy, the financial position of the RHC at any time and to enable the Commissioners to ensure that the Financial Statements comply with the disclosure regulations and charity law. They are also responsible for safeguarding the RHC assets and hence for taking reasonable steps for the prevention and detection of error, fraud and other irregularities.

Register of Interests

A register of Commissioners' and Management Board Members' relevant interests is maintained and updated at least annually. All Commissioners and Management Board Members are required to declare if they have an interest, pecuniary or otherwise, in any matter being considered by the Board or one of its committees and any relevant conflicts of interest are duly recorded as they arise. During the year under review no such interests were declared.

Organisational Structure, governance and decision-making

The RHC is governed by the Board of Commissioners which is responsible for the strategic direction of the institution, major policy and expenditure decisions, and the approval and enforcement of appropriate governance procedures. In carrying out these functions the Board is supported by a number of subordinate committees.

The Chief Executive Officer (CEO) is responsible to the Governor and Board of Commissioners for the effective and efficient management of the RHC, for the delivery and implementation of strategy set by the Board of Commissioners and for ensuring that the RHC complies with all relevant statutory requirements. He reports directly to the Governor and is head of the RHC management structure. Responsibility for day to day operations and the development of policy for the approval of the Board of Commissioners lies with the Management Board, which is chaired by the Chief Executive Officer.

Board of Commissioners structure

The Board of Commissioners comprises a mix of ex-officio and Specially Appointed Commissioners. The former include the Governor (de facto Chairman), the Assistant Chief of the General Staff (to represent the Army), the Director General of Army Medical Services, and the Director General Resources Land Forces Command who acts as the conduit through which the Grant in Aid is paid to the RHC and provides expert oversight. There are also three Ministers who for historic reasons are ex-officio Commissioners. While these Ministers do not play an active part in the governance or strategic management of the organisation, they visit for briefing, are made aware of major issues and receive copies of appropriate correspondence, including Board minutes.

The Specially Appointed Commissioners, of whom there are 10, are in effect the core trustees of the Royal RHC Chelsea. They are appointed by the Sovereign from members of the Government, serving or retired military officers, Civil Servants or other distinguished individuals from the public and private sectors who have been identified for the specific skills they have in order that they can provide expert, high level advice to the Board and to the senior management team. The Board members are also subject to the Nolan principles.

Board of Commissioners governance

The Board of Commissioners operates in accordance with terms laid out in a Governance Overview document which has itself been approved by the Board and is subject to periodic review to ensure it remains relevant to changing conditions. This covers, *inter alia*, the responsibilities of the Board, the nomination of a deputy chairman and committee chairmen, the frequency of meetings and the minimum quorum for decision making.

The Board of Commissioners met four times during the year. The Governor and Chief Executive Officer are always present and there is invariably a substantial majority of the remainder (excluding Ministers, who do not attend). During the interim period between the departure of Maj Gen McDowall and the arrival of Mr Lashko the Secretary and Management Co-Ordinator substituted for the CEO at Board meetings. At each meeting the Board considers a comprehensive report from the Chief Executive Officer covering all aspects of the RHC's business, both reporting on what has transpired since the previous meeting and flagging up future plans and emerging issues. The Board is then able to give guidance and direction on these matters. Individual members of the Board also regularly hold meetings with the executive on matters within their particular areas of competence. The Board also receives minutes and other reports from its committees, and periodically holds an away day to consider strategic issues.

Board Committees

The Board has six committees to which it delegates more detailed scrutiny of particular activities. Each of these committees has Terms of Reference which are reviewed regularly. Senior RHC staff, advisers and outside experts may be co-opted to attend these meetings. The Chief Executive Officer is in attendance at all of the committees. In addition, the Governor, as Chairman of the Board, may attend any committee with the agreement of its Chair. The six committees are as follows:

Audit Committee

The Audit Committee is made up of the following Commissioners:

Mrs A Gillibrand (Chair)

S Corbyn Esq

FDS Rosier Esq

D Stephens Esq - Director Resources and Command and Secretary (Army)

Maj Gen D McDowall CBE (resigned 27 July 2015)

The Audit Committee met twice during the year to consider financial management and reporting, the high level risk register and the reports of the RHC's auditors. There were a number of staff changes in the Finance Department during the year, and the Finance Director resigned from the RHC at the end of July 2015. A new Director was appointed, initially on an interim basis, and he subsequently joined the staff of the RHC as Finance & Change Director.

Nominations Committee

The Nominations Committee is made up of the following Commissioners:

M Waterson Esq CBE (Chair – appointment ended 30 September 2015)
J Fenwick QC (Chair – from 1 October 2015)
D Stephens Esq - Director Resources and Command and Secretary (Army)
Mrs A Gillibrand

The Nominations Committee met twice during the year and has the lead in identifying, selecting and proposing to the Board potential Specially Appointed Commissioners to replace those who have completed their term. It does this through a transparent application and interview process. The Board then makes recommendations for appointment to Her Majesty via the office of the Secretary of State for Defence. A similar process is followed for the appointment of the Governor.

In the year under review and to the date of signing this report, two new Specially Appointed Commissioners were appointed, one of whom joined the Board during the year. The other joined on 1st April 2016. These appointments replace two former Commissioners who completed their terms of office during the year. Each new Commissioner completes a programme of induction on appointment and is thereafter provided with relevant information and support.

Remuneration Committee

The Remuneration Committee is made up of the following Commissioners:

M Waterson Esq CBE (Chair – appointment ended 30 September 2015)
D Stephens Esq - Director Resources and Command and Secretary (Army)
J Fenwick Esq QC (Chair from 1 October 2015)
Dame Barbara Monroe DBE

The Committee met twice during the year to consider its annual review of staff pay in the light of an independently-commissioned pay benchmarking report and make recommendations on the remuneration of the staff for the forthcoming year. The Committee also considered the remuneration of the Chief Executive.

Investment Committee

The Investment Committee is made up of the following Commissioners:

FDS Rosier Esq (Chair)
Professor Lord Kakkar
C Lewington Esq OBE
Maj Gen D McDowall CBE (resigned 27 July 2015)

The Investment Committee met twice during the year under review. In that time they conducted a review of the RHC's investment management arrangements and performance of Sarasin & Partners LLP.

Clinical Governance Oversight Committee

The Clinical Governance Oversight Committee is made up of the following Commissioners:

Dame B Monroe DBE (Chair)
Professor Lord Kakkar
M Gallagher Esq
Ms J Cleary (from 1 October 2015)
Major General J Rowan OBE QHS - Director General of Army Medical Services (appointment ended 31 January 2016)
Maj Gen D McDowall CBE (resigned 27 July 2015)

The Clinical Governance Committee met three times during the year under review. In addition to monitoring performance and risk, and providing advice to the executive, the Committee noted in particular the awarding of the Gold Standards Framework Quality Hallmark Award Beacon Status in late 2015. Preparatory work for the Care Quality Commission inspection was also considered (the inspection took place in September 2016 but at the inspectors' report has not yet been received).

Estates Committee

The Estates Committee is made up of the following Commissioners:

S Corbyn Esq (Chair)
C Lewington Esq OBE
M Waterson Esq CBE (to 30 September 2015)
A Titchmarsh Esq MBE VMH DL (appointment ended 31 March 2016)
Ms Jo Cleary (from 1 January 2016)
Maj Gen D McDowall CBE (resigned 27 July 2015)

The Estates Committee met four times during the year under review. It considers issues relating to the management of the buildings and grounds, with a particular focus during the period under review on the refurbishment of the Long Wards, Prince of Wales Yard, the Soane Stable Block and environs and the South Terrace. The Committee also oversaw the preparation of a 20-year maintenance plan designed to ensure that the RHC's buildings are maintained in a good condition for the foreseeable future. The Estates Committee is responsible for making recommendations to the Board for capital projects and these are subject to approval by the Board following tendering estimates.

Management Board

Responsibility for day to day operations and the development of policy for the approval of the Board of Commissioners lies with the Management Board which is chaired by the Chief Executive Officer and is attended by all heads of department. The Management Board comprises:

Chief Executive - Major General D McDowall CBE (resigned 27 July 2015)
- G Lashko (from 1 February 2016)
Quartermaster (Director of Facilities) – Lieutenant Colonel A Hickling MBE MBIFM
Matron (Director of Care Services) – Colonel L Bale RRC
Adjutant – Colonel S Bate OBE FCMI
Finance Director – J Kucharska ACMA CGMA ACIS (resigned 31 July 2015)
- N Cattermole ACMA (from 1 August 2015)
HR Director – C Kowolkowski MCIPD

Also in attendance are:

Secretary – PWD Hatt (Acting Chair and Accounting Officer from 21 September 2015 – 31 January 2016, retired 31 March 2016)
Physician & Surgeon – Dr F Keating MBBS MRCP
Chaplain – The Rev S Brookes
Fundraising Manager – K Marsh (resigned 3 July 2015)

The Management Board meets formally on a monthly basis and includes in its meetings a review of current operations, management planning, budgetary position, key HR matters, policy development and the high level risk register. It is the practice for all members of the Management Board also to attend the principal part of meetings of the Board of Commissioners, although they are not in attendance for the private session during which matters relevant only to the Commissioners are considered. This greatly facilitates understanding between those responsible for providing strategic direction and those charged with its implementation.

Subsidiary companies

In addition to the six committees of the Board there are four active and one dormant subsidiary companies which have been established to manage charitable and trading activities. These subsidiaries are incorporated under the Companies Act 2006 and report accounts in accordance with the Companies Act and UK GAAP. The companies are as follows:

Royal Hospital Chelsea Appeal Ltd Group

The Commissioners form a majority of directors on the Board of Royal Hospital Chelsea Appeal Ltd which is a wholly owned subsidiary of the RHC. Royal Hospital Chelsea Appeal Limited is a Company limited by guarantee (company number 03701005) and a charity registered with the Charities Commission (charity number 1076414).

This Charitable Company has three wholly owned commercial trading subsidiaries being Chelsea Pensioner (RH) Ltd (company number 03853787), Tricorne Traders Ltd (company number 07382655) and RHC Prime Minister Scholars Ltd (company number 07509639); the latter is currently a dormant company. Chelsea Pensioner (RH) Ltd is the trading arm responsible primarily for the management of the Souvenir Shop, events, marketing and communications. Tricorne Traders Ltd primarily runs the Chelsea Pensioner Club, MTI Café and also provides catering and staff for functions. From 1 April 2016 the activities of Tricorne Traders and CPRH were merged into CPRH and Tricorne Traders Ltd became dormant.

The taxable income from Chelsea Pensioner (RH) Ltd and Tricorne Traders Ltd is gift aided through to their parent company Royal Hospital Chelsea Appeal Ltd. These gift aid amounts, along with direct donations received directly by Royal Hospital Chelsea Appeal Ltd, are then donated to the RHC (through the Army Prize Money and Legacy Fund) to assist with the funding of day to day operational costs and defined capital projects.

Gordon House (London) Ltd

Gordon House (London) Ltd was incorporated in 2012. The primary business of the Company is to assist the Commissioners of the RHC with the sale of the lease of the property known as Gordon House, which was achieved in 2012/13. The Company is a wholly owned subsidiary of the RHC and the Commissioners form a majority of the directors on the Board. This

subsidiary also gift aids its taxable income to its parent undertaking the RHC (through the Army Prize Money and Legacy Fund).

Review of the effectiveness of internal control

The Board of Commissioners and the Accounting Officer have responsibility for maintaining a sound system of internal control which supports the achievement of the RHC's aims and objectives as set by the Commissioners, whilst simultaneously safeguarding the public funds and assets, for which the Accounting Officer is personally responsible in accordance with his letter of delegation from the Permanent Under-Secretary of the Ministry of Defence. This system of internal control is designed to manage risk at a level that is considered to be realistic and compatible with the RHC's purpose, rather than seeking to eliminate it altogether which is judged not to be feasible. Equally, the system of internal control is designed to identify and prioritise risks, evaluate their likelihood and impact, and take steps to mitigate them effectively and economically.

External audits

The consolidated accounts of the RHC are audited by the Comptroller and Auditor General in accordance with the Chelsea Hospital Act 1876. In addition to this the commercial trading subsidiary companies are separately audited by PKF Littlejohn LLP.

Internal audits

In addition to the two external auditors, the RHC is also subject to regular internal audits to standards defined in the Government Internal Audit Manual. The internal auditors in 2015-16 were Crowe, Clarke & Whitehill LLP. CCW produced four reports during the year – these covered Financial Controls, Business Planning, Staff Contracts and ICT. The RHC is also audited from time to time by the Defence Internal Audit (DIA) on the use of the Grant in Aid funds. The most recent DIA report was received in October 2014. The internal audit appointment was put out to tender in June 2016 and RSM were appointed.

Fraud prevention and detection

The RHC has in place a set of values and a code of conduct to which all members of staff are required to adhere. In addition, all members of the staff and Commissioners are subject to criminal record (DBS) checks prior to appointment. Similarly, permanent contractors on site are required to adhere to the same procedures. Offences, should they occur, are reported to the Charities Commission and the Ministry of Defence. In addition there is a requirement for the Accounting Officer to report any loss of public funds to the Ministry of Defence.

Risk control framework

Risk appetite

The RHC's appetite for risk is generally low, reflecting its duty of care both for the In-Pensioners and the heritage buildings. To that end it seeks to ensure that it acts at all times within the law, reduces risk to the lowest possible level consistent with resource constraints, addresses directly and with vigour any emerging or high level risks, and does not allow risks to impact unreasonably or unacceptably on the day to day life of the In-Pensioners.

Key risks and controls

Risk management is regarded as a key management tool and there is in place a well-established and mature system for managing risk. At its apex there is a high level risk register, which is 'owned' personally by the Chief Executive Officer, with responsibility for the management of each risk delegated to the most appropriate member of the Management Board. This risk register, which includes matters such as financial, clinical, health and safety, and reputational risks, is updated by individual risk 'owners' and considered formally by the Management Board as a whole at every monthly meeting, at which time consideration is also given to emerging risks. Both the potential impact and likelihood of each of the risks are separately defined, as are the control mechanisms required to mitigate them. The risk register is then presented to the Audit Committee and the Board of Commissioners for their consideration.

In the last financial year, the key areas of risk were considered to be:

a. Financial

The RHC remains heavily dependent on its Grant in Aid for meeting day to day running costs. The financial risk is mitigated both by maintaining strong, effective links to the Ministry of Defence and by increasing income from commercial activities. The sale of a long lease for Gordon House has established a restricted fund for future heritage capital expenditure which cannot be covered by the Grant in Aid. Priority continues to be given to developing charitable income sources such as from legacies and corporate donations. Risk is further mitigated by the comprehensive internal and external audit programme which explores not just the regularity and efficiency of the RHC's financial management but also its business processes.

b. Reputational

This is managed by having clear policies in place for handling the media, by having an active Public Relations programme, and by training key staff.

c. Fire

The risk of fire is heightened during the Long Ward modernisation programme which involves 'hot' work in the heritage buildings. This is mitigated in particular by protocols to ensure the contractors do not carry out hot work outside specified periods, and by the comprehensive fire awareness and training programme provided to all staff.

In addition to the high level risk register, subordinate registers are held for clinical governance and health and safety (including fire) and there is a comprehensive business continuity package including an emergency response plan which is tied in where appropriate to the emergency services. To enable these plans to be implemented effectively, emergency control centres have been established together with a tailored communications suite. These plans are tested periodically.

Factors outside the control of the RHC

The RHC is dependent on a Grant in Aid from the Ministry of Defence to fulfil its two key objectives of In-Pensioner welfare and maintenance of the heritage buildings. Should this be significantly reduced it would be unable to continue to provide the care that it was founded to provide. The Grant in Aid is expected to continue broadly at its current level for the foreseeable future. There are also various other factors outside of the control of the RHC which could have a negative impact on its funding and operations. Such key factors are:

- A change in national attitudes towards the armed services which might undermine public (and thus political) support for the institution (and so affect the Grant in Aid).
- The Ministry of Defence reducing the grant in aid in real terms as a budgetary measure. Although unlikely at present this does remain a possibility in the longer term and is the principal reason why the Commissioners are intent on moving progressively towards establishing greater financial self-sufficiency.
- Competition from other military charities. There are a number of other charities which support veterans and competition for funds is likely to get greater. This has the potential to affect fundraising.
- The number of veterans is declining as the generations who were conscripted during and after the second world war die out and this may impact on recruitment.
- The introduction of future legislation which might increase the cost base, for example by creating more demanding care regulations requiring additional staff or by raising pension contributions/National Insurance Contributions.
- A severe and prolonged economic downturn which would compound the first three factors listed above.

Review of effectiveness of the Board

The Commissioners and Accounting Officer have responsibility for maintaining the effectiveness of the RHC's governance. The Board of Commissioners intends, in accordance with its governance overview document, to have a specific review of its own work and performance every three years.

The Board of Commissioners is satisfied that the framework within which it operates is robust, and that it is continuing to work effectively towards the achievement of the RHC's aims, namely the welfare and care of the In-Pensioners and the conservation of its heritage buildings and grounds.

The Board believes that it has achieved strategic clarity in its work, is focused on results and has been provided with sound management information which has allowed it to act in a well-founded and commercial way in respect of its various business opportunities over the financial year. In particular the Board has been provided with a substantial amount of financial information on its capital programmes and has been able to rely on the data provided to it which has been governed by the Financial Framework between the RHC and the Ministry of Defence in respect of Grant in Aid as well as the production of information from the subsidiary companies in accordance with commercial standards.

Gary Lashko Esq
CEO & Accounting Officer
On behalf of the Board of Commissioners

31 January 2017

The Audit Report of the Comptroller and Auditor General to the Houses of Parliament

I have audited the financial statements of Royal Hospital Chelsea for the year ended 31 March 2016 under the Chelsea Hospital Act 1876. The financial statements comprise: the Consolidated and Charity Statements of Financial Activities, the Consolidated and Charity Balance Sheets, the Consolidated Cashflow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Commissioners, Accounting Officer and auditor

As explained more fully in Governance Statement, the Commissioners and the Accounting Officer are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and report on the financial statements in accordance with the Chelsea Hospital Act 1876. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Royal Hospital Chelsea's and the group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by Royal Hospital Chelsea; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report of the Commissioners to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on regularity

In my opinion, in all material respects the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the group's and of the Royal Hospital Chelsea's affairs as at 31 March 2016 and of its incoming resources and net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Chelsea Hospital Act 1876 and the accounting policies set out within it.

Opinion on other matters

In my opinion:

- the information given in the Annual Report of the Commissioners; the Review of achievements and performance; and the Financial review and results for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse
Comptroller and Auditor General

7 February 2017

National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

ROYAL HOSPITAL CHELSEA
CONSOLIDATED GROUP STATEMENT OF FINANCIAL ACTIVITIES
For the year ended 31 March 2016

		Unrestricted 2016 £'000s	Restricted 2016 £'000s	Total 2016 £'000s	Total 2015 Restated £'000's
	Note				
Income and endowments from:					
Voluntary income – donations and legacies	2	1,207	204	1,411	987
Charitable activities – MOD Grant in Aid	5	11,875	-	11,875	11,667
Other trading activities – events and fundraising	3	3,647		3,647	2,574
Investments	4	1,861		1,861	3,338
Other income	6	1,009		1,009	890
TOTAL INCOME AND ENDOWMENTS		19,599	204	19,803	19,456
Expenditure on:					
Raising funds	7	2,322		2,322	2,174
Charitable activities:					
Infirmary nursing and medical	7	5,085		5,085	6,047
Welfare and ceremonial	7	5,116	102	5,218	7,366
Facilities management	7	9,363	20	9,383	5,691
Other activities- investment management costs	7	153		153	179
Impairment of Estate	11	111,787		111,787	
TOTAL EXPENDITURE		133,826	122	133,948	21,457
Net gain/(loss) on investments	13	19,230		19,230	8,553
Net income/(expenditure)		(94,997)	82	(94,915)	6,552
Other recognised gains/(losses):					
Gain/(loss) on revaluation of fixed assets	26	(266,644)	-	(266,644)	-
Gain/(Loss) on disposal of fixed assets	11		-		(26)
Actuarial gain/(loss) on defined benefit pension scheme	22	13	-	13	(11)
Net movement in funds		(361,628)	82	(361,546)	6,515
Reconciliation of funds					
Total funds brought forward	26	607,248	14,677	621,925	615,410
Total funds carried forward		245,620	14,759	260,379	621,925

All activities are classed as continuing and all recognised gains and losses have been included in the SOFA.

ROYAL HOSPITAL CHELSEA
STATEMENT OF FINANCIAL ACTIVITIES – CHARITY
For the year ended 31 March 2016

		Unrestricted 2016 £'000s	Restricted 2016 £'000s	Total 2016 £'000s	Total 2015 £'000s Restated
INCOME AND ENDOWMENTS FROM:					
	Notes				
Voluntary income - donations and legacies	2	1,222	204	1,426	2,257
Charitable activities – Grant In Aid MOD	5	11,875		11,875	11,667
Investment income	4	1,856	-	1,856	3,335
Other income	6	936		936	890
TOTAL INCOME AND ENDOWMENTS		15,889	204	16,093	18,149
EXPENDITURE ON:					
Raising funds	7	517		517	616
Charitable activities:	7				
Infirmity nursing and medical		5,080		5,080	5,888
Welfare and ceremonial		5,116	102	5,218	7,277
Facilities management		9,356	20	9,376	5,830
Other activities – investment management costs	7	153		153	303
Impairment of estate	11	111,787		111,787	
TOTAL EXPENDITURE		132,009	122	132,131	19,914
Net gain/(loss) on investments	13	19,230		19,230	8,553
Net income/(expenditure)		(96,890)	82	(96,808)	6,788
Other recognised gains/(losses)					
Gain/(loss) on revaluation of fixed assets	26	(266,644)	-	(266,644)	-
Gain/(Loss) on disposal of fixed assets	11	-	-	-	(26)
Actuarial gain/(loss) on defined benefit pension scheme	22	13	-	13	(11)
Net movement in funds		(363,521)	82	(363,439)	6,751
Reconciliation of funds					
Total funds brought forward	26	605,639	14,672	620,311	613,560
Total funds carried forward		242,118	14,754	256,872	620,311

All activities are classed as continuing and all recognised gains and losses have been included in the SOFA.

ROYAL HOSPITAL CHELSEA
BALANCE SHEETS AT 31 MARCH 2016

	Notes	Charity 2016 £'000s	Charity 2015 £'000s Restated	Group 2016 £'000s	Group 2015 £'000s Restated
Fixed Assets					
Heritage	11	16,405	16,075	16,405	16,075
Non heritage	11	115,204	487,386	115,279	487,479
Investment property	12	89,410	70,300	89,410	70,300
Listed Investments	13	28,621	25,591	28,205	25,178
		<u>249,640</u>	<u>599,352</u>	<u>249,299</u>	<u>599,032</u>
Current Assets					
Stock	14	-	-	132	128
Debtors: falling due within one year	15	272	11,598	716	12,531
Cash at bank and in hand	16	10,222	12,449	15,223	14,974
		<u>10,494</u>	<u>24,047</u>	<u>16,071</u>	<u>27,633</u>
Current Liabilities					
Creditors: amounts falling due within one year	17	(2,766)	(2,567)	(4,495)	(4,219)
Net current assets/(liabilities)		<u>7,728</u>	<u>21,480</u>	<u>11,576</u>	<u>23,414</u>
Total assets less current liabilities		257,368	620,832	260,875	622,446
Creditors: amounts falling due after one year	18	(167)	(149)	(167)	(149)
Net assets excluding pension liability		<u>257,201</u>	<u>620,683</u>	<u>260,708</u>	<u>622,297</u>
Defined pension scheme liability	19	(329)	(372)	(329)	(372)
Net assets /(liabilities)		<u><u>256,872</u></u>	<u><u>620,311</u></u>	<u><u>260,379</u></u>	<u><u>621, 925</u></u>
Funds					
<i>Grant in Aid fund</i>	26	(5,547)	(4,465)	(5,547)	(4,465)
<i>Army Prize Money & Legacy fund</i>					
Restricted Funds	26	4,192	14,672	4,192	14,672
Unrestricted Funds	26 & 29	258,220	343,453	258,220	343,453
Revaluation Reserve	26 & 29	-	266,644	-	266,644
Ranelagh & De la Fontaine Trust Capital	26	7	7	7	7
<i>Gordon House (London) Limited</i>	26	-	-	(198)	(196)
<i>Royal Hospital Chelsea Appeal Ltd Group</i>					
Restricted	26	-	-	4	6
Unrestricted	26 & 29	-	-	3,701	1,804
Total funds		<u><u>256,872</u></u>	<u><u>620,311</u></u>	<u><u>260,379</u></u>	<u><u>621,925</u></u>

Signed on behalf of the Board of Commissioners on 31 January 2017

Gen Sir Redmond Watt KCB KCVO CBE DL
Governor/Chairman

J Fenwick QC
Deputy Chairman

A Gillibrand
Chair of the Audit Committee

ROYAL HOSPITAL CHELSEA
CONSOLIDATED STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 31 MARCH 2016

	2016	2015
	£'000s	£'000s
Net cash provided by/(used in) operating activities	14,093	Restated 2,991
Cash flows from investing activities:		
Dividends, interest & rents from investments	1,075	1,204
Proceeds from the sale of fixed assets	1,631	10,774
Purchase of fixed assets	(12,024)	(11,415)
Proceeds from the sale of investments	-	6,250
Purchase of investments	(4,526)	(900)
Net cash provided by/(used in) investing activities	249	8,904
Cash flows from financing activities	-	-
Change in cash and cash equivalents in the year	249	8,904
Cash and Cash equivalents at beginning of the year	14,974	6,070
Cash and Cash equivalents at the end of the year	15,223	14,974

Note 1

Reconciliation of net income/(expenditure) to net cash flow from operating activities

	2016	2015
	£'000s	£'000s
Net income/(expenditure) for the year	(94,915)	Restated 6,552
Adjustments for		
Impairment of estate	111,787	-
Depreciation charges	5,463	5,418
(Gains)/losses on investments	(19,230)	(8,553)
Dividends, interest & rents from investments	(1,075)	(1,204)
Loss/(profit) on the sale of fixed assets	-	-
(Increase)/decrease in stocks	(3)	6
(Increase)/Decrease in debtors	11,815	(605)
Increase/(decrease) in creditors	294	1,395
Movement on defined benefit pension scheme liability	(43)	(18)
Net cash provided by/(used in) operating activities	14,093	2,991

Note 2

Analysis of cash and cash equivalents

	2016	2015
	£'000s	£'000s
Cash at bank	8,923	14,974
Money market deposit account	6,300	-
Total cash and cash equivalents	15,223	14,974

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

a. Basis of Accounting

The Financial Statements have been prepared on a going concern basis in accordance with the Statement of Recommended Practice (SORP) "Accounting and Reporting by Charities" issued in March 2015, applicable with UK accounting standard FRS102 effective from 1 January 2015. There is no material uncertainty about the RHC's ability to continue and so the going concern basis is considered appropriate.

The Financial Statements consolidate on a line by line basis all the Restricted and Unrestricted Funds of the RHC and its related companies being Royal Hospital Chelsea Appeal Ltd (registered charity, number 1076414), Chelsea Pensioner (RH) Ltd, Tricorne Traders Ltd and Gordon House (London) Ltd.

The financial statements are prepared on a going concern basis under the historical cost convention, modified to include certain items at fair value. The financial statements are prepared in sterling which is the functional currency of the charity and rounded to the nearest £000.

The significant accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented unless otherwise stated.

The charity adopted SORP (FRS 102) in the current year and an explanation of how transition to SORP (FRS 102) has affected the reported financial position and performance is given in note 29.

b. Funds

Unrestricted funds are available for use at the discretion of the trustees in furtherance of the general objectives of the charity and which have not been designated for other purposes.

Restricted funds are funds which are to be used in accordance with specific restrictions imposed by donors or which have been raised by the charity for particular purposes. The cost of raising and administering such funds are charged against the specific fund. The aim and use of each restricted fund is set out in the notes to the financial statements.

c. Incoming resources

All incoming resources are included in the Statement of Financial Activities (SoFA) when the charity is legally entitled to the income, after any performance conditions have been met, when the amount can be measured reliably and when it is probable that the income will be received

Where income is received in advance of the related service being delivered to the customer, a liability is raised in the form of Deferred Income until the related service is delivered at which point the income is recognised. The RHC's Deferred Income relates to rent and to the trading activities of the trading subsidiaries.

Legacies and donations received for general purposes are credited to the Unrestricted Funds which are used to augment the annual Grant in Aid from the Ministry of Defence which provides for the maintenance of the heritage site and for meeting the cost of fuel and lighting, food, furniture, clothing, medical care for In-Pensioners and staff costs relating to the welfare of In-Pensioners.

Donations for purposes restricted by the wishes of the donor are taken to Restricted Funds where these wishes are legally binding on the Commissioners of the RHC.

Income from trading activities includes income earned from fundraising events and trading activities to raise funds for the charity. Income is received in exchange for supplying goods and services in order to raise funds and is recognised when entitlement has occurred.

Investment income is earned through holding assets for investment purposes such as shares and property. It includes dividends, interest and rent. Interest income is recognised when receivable and dividend and rent income is recognised as the charity's right to receive payment is established.

d. **Resources expended**

Resources expended are accounted for on the accruals basis. Direct costs (including irrecoverable VAT) are allocated to the charitable activities to which they relate. Expenditure that relates to more than one charitable activity is apportioned over the charitable activities in the form of support costs, with the exception of depreciation. The apportionment is based on the proportion of direct costs as a percentage of all costs excluding support costs. Buildings depreciation is allocated to charitable activities based on the space occupied by the building used for each charitable activity. All other depreciation is allocated the same way as support costs.

The RHC's charitable activities consist of the costs of the Margaret Thatcher Infirmary and medical centre, the costs of the welfare of in-pensioners in the Long Wards and associated activities and the management of the RHC's facilities, buildings and grounds. The SOFA also includes a one-off charge for the impairment of the RHC's operational estate – this follows from the valuation that was obtained during the year (see below and also note 11).

Intra- group transactions are excluded from income and expenditure as appropriate.

e. **Tangible fixed assets**

Freehold property: The RHC's operational land and buildings were revalued by Savills, an independent firm of chartered surveyors, at 31 March 2016. The Margaret Thatcher Infirmary building was valued on the basis of a market assessment, the valuers having advised that a market in modern care facilities exists in the area. The remainder of the operational estate was valued on the basis of a "modern equivalent," the valuers having advised that the unique and historic nature of the RHC and its buildings and the planning restrictions preventing development of the grounds meant that no meaningful market value could be arrived at. A "modern equivalent" valuation is an estimate of the cost of acquiring a modern facility that would enable the RHC to carry out its functions.

The operational estate is depreciated over its useful life as recommended by the valuer.

Improvement works of a capital nature carried out to the estate are capitalised and depreciated over their estimated useful lives – these lives vary depending on the nature of the project.

Major refurbishments completed during the year which were initially carried under "Assets in the Course of Construction" are capitalised at the year-end and depreciated from the start of the new financial year.

Other tangible fixed assets: are capitalised at their estimated depreciated replacement cost or at historic cost on acquisition. Since 2004 all new capital expenditure has been funded from the Army Prize Money and Legacy Fund. Improvements and additions in periods between valuations are capitalised at historic cost. Depreciation is provided at rates calculated to write off the value of each asset over its expected useful life with the exception of freehold land, assets in course of construction and exhibits which are not depreciated. Depreciation rates are as follows:

Freehold buildings over the remaining useful life as estimated by the Valuer, or for 50 years in respect of a permanent new building before its first valuation:

Fixtures and fittings	5 - 15 years straight line
Plant and machinery	10 - 25 years straight line
Motor vehicles	10 - 15 years straight line
Office Equipment	7 - 15 years straight line
Computers	3 - 5 years straight line

Investment property: Investment properties are shown at their open market value. These properties were revalued by an independent chartered surveyor at 31 March 2016. No depreciation is charged on investment properties.

Heritage assets: Since 2001 new heritage assets are capitalised at cost upon acquisition. Heritage assets are capitalised as non-depreciating assets under the terms of FRS 30, which prevents operational assets being treated as heritage assets. In June 2011 a revaluation was undertaken of all existing heritage assets, such as the RHC's paintings and artefacts, and these are included as heritage assets in note 11. A revaluation is due in 2016-17.

Capitalisation thresholds: The lower limit for capitalisation of land and buildings is £10,000. This threshold also

applies to land and buildings which are heritage assets. For all other fixed assets it is £5,000. For the subsidiary charity and its subsidiaries £1,000 is deemed to be the appropriate capitalisation threshold.

f. Listed investments

Listed investments are shown at market value as at the balance sheet date. Unrealised gains and losses on the revaluation of investments are recognised in the SOFA.

g. Pensions

The nature of the RHC pension schemes are set out in Note 22. The pension costs charged to the SOFA represent the contributions payable to the NHS and Civil Service Pension Schemes on behalf of members of staff. The RHC also operates an unfunded defined benefit scheme which has been closed to new members for many years. A small number of pensions remain in payment to former Governors and Captains of Invalids (or their widows). In accordance with FRS 102 the liability represented by this scheme is shown in the Balance Sheet (see note 22).

h. Taxation

The RHC is recognised as charitable by HM Revenue & Customs (reference X8366) and is generally exempt from Corporation Tax on surpluses and capital gains. Chelsea Pensioners (RH) Ltd and Tricorne Traders Ltd gift their taxable income to Royal Hospital Chelsea Appeal Ltd and therefore incur no liability for corporation tax. Royal Hospital Chelsea Appeal Ltd is a registered charity and has no liability for corporation tax. Gordon House (London) Ltd gifts its taxable income to the RHC and therefore incurs no liability for corporation tax. Irrecoverable VAT is included in the SOFA with the item to which it relates. The RHC is registered for VAT as a group.

i. Operating leases

Rentals payable under operating leases are charged in the SOFA on a straight line basis over the lease term.

j. Stock

Stock is held by Chelsea Pensioner (RH) Ltd and Tricorne Traders Ltd and is valued at the lower of cost and net realisable value after making allowances for obsolete and slow-moving stock.

2 - VOLUNTARY INCOME

	Charity 2016 £'000s	Charity 2015 £'000s	Group 2016 £'000s	Group 2015 £'000s
Legacies & donations	1,426	2,257	1,411	987

3 - OTHER TRADING ACTIVITIES

	Charity 2016 £'000s	Charity 2015 £'000s	Group 2016 £'000s	Group 2015 £'000s
RHC Appeal Ltd	-	-	3,647	2,574

4 - INVESTMENT INCOME

	Charity 2016 £'000s	Charity 2015 £'000s	Group 2016 £'000s	Group 2015 £'000s
Income on investment portfolio	1,019	1,188	1,019	1,188
Income on commercial property	385	364	385	364
Lease Extension Premiums	401	1,751	402	1,770
Bank and investment interest received	51	13	55	16
Total	1,856	3,316	1,861	3,338

The RHC owns the freehold of its investment properties and has granted head leases to various head tenants. The head tenants have in turn granted under-leases to sub-tenants. Under the Leasehold Reform Urban Development and Housing Act 1993, tenants were given the right to extend their leases by 90 years. The Act specifies that a premium is payable for the granting of such extensions and gives details of how this is to be calculated.

5 - INCOME FROM CHARITABLE ACTIVITIES

	Charity 2016 £'000s	Charity 2015 £'000s	Group 2016 £'000s	Group 2015 £'000s
Grant in Aid received from the Ministry of Defence	11,875	11,667	11,875	11,667

6 - OTHER INCOME

	Charity 2016 £'000s	Charity 2015 £'000s	Group 2016 £'000s	Group 2015 £'000s
Staff accommodation charges	252	243	252	243
Family Practice	96	73	96	73
Food recoveries	49	32	49	32
Pension contributions (NHS)	110	110	110	110
In-Pensioner top-up fees	391	325	391	325
Other income	38	107	111	107
Total	936	890	1,009	890

Pension contributions represent income from the NHS in respect of increased employer's pension contributions for staff in the National Health Service Superannuation Scheme.

7 - TOTAL RESOURCES EXPENDED (GROUP)

	Cost of genera- ting funds £'000s	Infirmary nursing & medical £'000s	Welfare & cere- monial £'000s	Estate manage- ment £'000s	Support costs £'000s	Impair- ment of estate £'000s	Total £'000s	Total 2015 £'000s
Costs of generating voluntary income	100	-	-	-	-	-	100	34
Fundraising trading	776	-	-	-	-	-	776	760
Investment management costs	153	-	-	-	-	-	153	179
Staff costs	850	3,218	515	3,246	1,030	-	8,859	8,624
Other staff costs	-	48	10	6	134	-	198	188
Buildings and grounds maintenance costs	-	21	1	2,890	-	-	2,912	2,541
Information technology costs	-	-	-	-	108	-	108	136
In-pensioner living expenses	-	165	1,127	101	6	-	1,399	1,378
Catering costs	-	-	36	-	-	-	36	49
Council tax and rates	-	-	-	27	67	-	94	89
Security costs	-	-	-	-	743	-	743	730
Water, gas and electricity	-	-	-	-	593	-	593	610
Insurance	-	-	-	-	250	-	250	241
Audit fees	-	-	-	-	95	-	95	102
Accountancy fees	-	-	-	-	2	-	2	0
Surveyor fees	-	-	-	15	-	-	15	(3)
Consultancy fees	-	27	-	57	40	-	124	130
Legal fees	-	-	1	-	61	-	62	86
Office expenses	-	-	-	(1)	140	-	139	139
Other expenses	-	1	9	-	30	-	40	26
Depreciation	392	1,279	2,446	555	791	-	5,463	5,418
						111,78		
Impairment of estate	-	-	-	-	-	7	111,787	
Total before re-allocation of support costs	2,271	4,759	4,145	6,896	4,090	-	133,948	21,457
Re-allocation of support costs	204	326	1,073	2,487	(4,090)			
						111,78		
Total expenditure	2,475	5,085	5,218	9,383	-	7	133,948	21,457

8 - STAFF COSTS AND NUMBERS

	Charity 2016 £'000s	Charity 2015 £'000s	Group 2016 £'000s	Group 2015 £'000s
Salaries and wages	6,026	6,130	6,676	6,463
Social security costs	447	455	491	481
Pension costs	1,002	961	1,135	1,009
Sub-total	7,475	7,546	8,302	7,953
Casual and agency pay	470	480	470	570
In-pensioner pay	65	81	87	101
Total	8,010	8,107	8,859	8,624

The full time equivalent members of staff employed by the group by department were as follows:

	2016 Number	2015 Number
Infirmery, nursing & medical	104	85
Welfare & ceremonial	12	11
Estates Management	128	117
Finance & Administration	15	15
Commercial services & fundraising	11	11
	270	239

All staff are employed by the RHC – none are employed by subsidiary companies. Costs are recharged as appropriate.

Higher paid employees

The number of employees whose remuneration was over £60,000 in 2015-2016 (excluding pension contributions) was as follows:

	2016 No	2015 No
£60,000 - £69,999	1	3
£70,000 - £79,999	0	1
£80,000 - £89,999	1	0
£90,000 - £99,999	1	1

Two (2015 : three) of the above staff contribute to the PCSPS defined benefits pension scheme. Employer pension contributions for these staff were £38,118 (2015 : £51,732).

The total remuneration of key management personnel was £483,974 (2015 : £483,049). Employers' pension contributions for key management personnel were £77,055 (2015 £72,049).

The salary and pension entitlements of the Governor and Chief Executive were in the following bands:

	Actual salary 2016	Actual salary 2015	Real increase in pension at 60 during the year	Total accrued pension at 60 at the year end	Cash equiva- lent transfer value at start date	Cash equivalent transfer value at end date	Real increase in cash equivalent transfer value
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
Gen Sir Redmond Watt Governor	80-85	60-65	-	-	-	-	-
Maj Gen David McDowall CEO to 27 July 2015	40-45	70-75	-	-	-	-	-
Gary Lashko Esq CEO from 1 February 2016	15-20	-	-	-	-	7	5

Gen Sir Redmond Watt and Maj Gen David McDowall do not receive pension benefits from the RHC.

Commissioners' Emoluments

None of the Commissioners received any remuneration for acting as Commissioners. Travel expenses of £520 (2015: £674) were claimed during the year by one (2015 : one) Commissioner. The Governor is a Commissioner and receives a salary as an employee of the RHC.

9 - GOVERNANCE COSTS

	Charity 2016 £'000s	Charity 2015 £'000s	Group 2016 £'000s	Group 2015 £'000s
Audit fees*	72	77	95	102
Legal Fees	16	8	61	78
Consultancy fees	126	-	126	-
Bank charges	-	-	3	2
Support costs	-	39	-	42
Total	214	124	285	224

£44,500 (2015 : £40,000) relates to the NAO audit fee charge for the year ended 31 March 2016.

10 - SUBSIDIARY UNDERTAKINGS

The RHC has two direct subsidiaries, RHC Appeal Ltd and Gordon House (London) Ltd.

RHC Appeal Ltd has three subsidiaries, Tricorne Traders Ltd, Chelsea Pensioner (RH) Ltd and RHC Prime Minister Scholars Ltd.

i) RHC Appeal Ltd

RHC Appeal Ltd is a company incorporated in England and limited by guarantee (no 03701005). It is also a registered charity (no 1076414). It donates all its profits to the RHC.

Its financial results for the year to 31 March 2016 were:-

	2016 £'000	2015 £'000 Restated
Incoming Resources	5,135	3,531
Outgoing Resources	<u>(3,240)</u>	<u>(3,466)</u>
Net incoming/(outgoing) resources	1,895	(235)
Balance at the beginning of the year	1,810	2,045
Balance at the end of the year	<u><u>3,705</u></u>	<u><u>1,810</u></u>

ii) Gordon House (London) Ltd

Gordon House (London) Ltd was incorporated in England in April 2012 (no 08036299). The RHC owns 100% of its issued share capital which consists of 417,431 shares of £1 each. It was created to assist with the sale of the lease of Gordon House.

Its financial results for the year to 31 March 2016 were:-

	2016 £'000	2015 £'000
Turnover	-	-
Cost of sales	-	-
Administrative costs	(2)	(2)
Other gains/(losses)	<u>-</u>	<u>-</u>
Loss for the year	(2)	(2)
Profit & loss account brought forward	(196)	(194)
Profit & loss account carried forward	<u><u>(198)</u></u>	<u><u>(196)</u></u>
Capital and reserves:		
Share capital	417	417
Profit & loss account	(198)	(196)
Total	<u><u>219</u></u>	<u><u>221</u></u>

10 - SUBSIDIARY UNDERTAKINGS (continued)

iii) Chelsea Pensioner (RH) Ltd

CPRH is incorporated in England - no 03853787. The whole of its issued share capital - 1,000 shares of £1 each - is owned by RHC Appeal Ltd. The company conducts trading activities concerned with the rental of the RHC's facilities to outside organisations. Its financial results for the year to 31 March 2016 were-

	2016	2015
	£'000	£'000
Turnover	3,077	2,069
Cost of sales	(84)	(86)
Administrative costs	(877)	(885)
Other operating expenses	(17)	(70)
Ordinary profit before interest and tax	<u>2,099</u>	<u>1,030</u>
Other gains/(losses):		
Bank interest receivable	4	3
(Loss) on disposal of asset	-	(17)
Donation to RHC Appeal Limited	<u>(2,129)</u>	<u>(1,036)</u>
Profit/(loss) for the year	(26)	(20)
Profit & loss account brought forward	63	83
Profit & loss account carried forward	<u>37</u>	<u>63</u>

10 SUBSIDIARY UNDERTAKINGS (continued)

iv) Tricorne Traders Ltd

This company is incorporated in England - no 07382655. It operates the RHC's food and beverage services where these are chargeable to either in-pensioners or external users. The company's share capital consists of 1,000 £1 shares all of which are held by RHC Appeal Ltd. Its financial results for the year to 31 March 2016 were:-

	2016	2015
	£'000	£'000
Turnover	570	504
Cost of sales	(270)	(265)
Administrative expenses	(308)	(43)
Other gains/(losses)	0	0
Donation to RHC Appeal Ltd	0	(187)
Profit/(loss) for the year	----- (8)	----- 9
Profit & loss account brought forward	12	39
Profit & loss account carried forward	<u>4</u>	<u>12</u>
Capital & reserves		
Share capital	1	1
Profit & loss account	3	12
Total	<u>4</u>	<u>13</u>

v) RHC Prime Minister Scholars Ltd

This company did not trade during the year and there are no current plans for trading to commence.

11 - TANGIBLE FIXED ASSETS HERITAGE AND NON-HERITAGE	Assets in the course of construction £'000s	Land and buildings £'000s	Plant, machinery & equipment £'000s	Vehicles £'000s	Exhibits £'000s	Group Total £'000s
Cost or Valuation						
At 1 April 2015	17,470	485,045	4,223	207	15,835	522,780
Additions at cost	11,812	-	194	18	-	12,024
Reclassification	(25,479)	25,479	-	-	-	-
Disposals	-	-	-	-	-	-
Revaluation	-	(401,151)	-	-	-	(401,151)
	3,803	109,373	4,417	225	15,835	133,653
Depreciation						
At 1 April 2015	-	(17,572)	(1,592)	(63)	-	(19,227)
Depreciation charge for the year	-	(5,148)	(299)	(15)	-	(5,462)
Disposals	-	-	-	-	-	-
Revaluation	-	22,720	-	-	-	22,720
At 31 March 2016	-	-	(1,891)	(78)	-	(1,969)
Net book value						
At 1 April 2015	17,470	467,474	2,631	145	15,835	503,555
Valuation at 31 March 2016	3,803	109,373	2,526	147	15,835	131,684

The closing net book values are attributable to the RHC's funds as follows:

Grant in Aid Fund	-	-	245	14	-	259
Army Prize Money and Legacy Fund	3,803	109,360	2,219	134	15,835	131,351
Subsidiaries	-	13	61	-	-	74
	3,803	109,373	2,525	148	15,835	131,684

HERITAGE	Assets in the course of construction £'000s	Land and buildings £'000s	Plant, machinery & equipment £'000s	Vehicles £'000s	Exhibits £'000s	Group Total £'000s
Cost or Valuation						
At 1 April 2015	-	240	-	-	15,835	16,075
Revaluation at 31 March 2016		330				330
At 31 March 2016	-	570	-	-	15,835	16,405
Depreciation						
At 1 April 2015	-	-	-	-	-	-
At 31 March 2016	-	-	-	-	-	-
Net book value						
At 1 April 2015	-	240	-	-	15,835	16,075
Valuation at 31 March 2016	-	570	-	-	15,835	16,405

The closing net book values are attributable to the Royal RHC Chelsea's funds as follows:

Army Prize Money and Legacy Fund	-	570	-	-	15,835	16,405
	-	570	-	-	15,835	16,405

	Assets in the course of construction £'000s	Land and buildings £'000s	Plant, machinery & equipment £'000s	Vehicles £'000s	Exhibits £'000s	Group Total £'000s
NON HERITAGE						
Cost or Valuation						
At 1 April 2015	17,470	484,805	4,223	207	-	506,705
Additions at cost	11,812	-	194	18	-	12,024
Reclassification	(25,479)	25,479	-	-	-	-
Disposals	-	-	-	-	-	-
Revaluation	-	(401,481)	-	-	-	(401,481)
	3,803	108,803	4,417	225	-	117,248
Depreciation						
At 1 April 2015	-	(17,572)	(1,592)	(63)	-	(19,227)
Depreciation charge for the year	-	(5,148)	(299)	(15)	-	(5,462)
Disposals	-	-	-	-	-	-
Revaluation	-	22,720	-	-	-	22,720
At 31 March 2016	-	-	(1,891)	(78)	-	(1,969)
Net book value						
At 1 April 2015	17,470	467,234	2,631	145	-	487,480
Valuation at 31 March 2016	3,803	108,803	2,526	147	-	115,279

The closing net book values are attributable to the RHC's funds as follows:

Grant in Aid Fund	-	-	245	14	-	259
Army Prize Money and Legacy Fund	3,803	108,790	2,219	134	-	114,946
Subsidiaries	-	13	61	-	-	74
	3,803	108,803	2,525	148	-	115,279

Operational Estate

Non-Heritage Assets

The freehold and lease hold interests in the properties held were independently valued as at 31 March 2016 by Savills (UK) Limited, acting in the capacity of External Valuers as defined in the RICS Red Book (but not for the avoidance of doubt as an external Valuer of the Fund as defined by the Alternative Investment Fund Managers Regulations 2013).

The valuations accord with the requirements of IFRS 13, FRS 102 and the 19th Edition of the RICS Valuation – Professional Standards (incorporating the International Valuation Standards “The RICS Red Book”).

The Valuers reported that the aggregate of the Fair Value of each of the properties held by the RHC amounted to £198,670K. This did not include a revaluation of the National Army Museum (2015 £100,000).

The valuations were arrived at predominantly by reference to market evidence for comparable property.

Heritage Assets

Heritage assets as defined under FRS 30 were valued by Gurr–Johns as at June 2011 at market value with the exception of four exhibits, which are accounted for at cost. The four items were all acquired in recent years and the cost price is still a good measure of value. The next revaluation will be in 2016/17.

a) The RHC’s heritage assets are principally composed of art and artefacts and it has a holding of 789 (2015: 789) such exhibits with a total value of £15,834,766 (2015: £15,834,766). By value the principal items are paintings, prints, drawings and photographs, antique furniture, sculpture and silver and gold. The collection also includes arms and armour, books, clocks, medals, the Royal Hospital Mace and a stained glass window.

The items currently held at valuation total £15,782,816 (2015: £15,782,816) and those held at cost total £51,950 (2015: £51,950). The total cost of £51,950 includes the Calligraphic Panel recognised at a cost of £7,600 which was not revalued. The Exhibits are deemed to have indeterminate lives and the Commissioners consider it inappropriate to charge depreciation.

b) Additionally there is one piece of land known as Royal Avenue, which also is classed as a heritage asset. This represents the original approach road to the RHC from the Kings Road and gives a view of the RHC as intended by Sir Christopher Wren. It was valued by Savills as at 31 March 2016 with a market value of £570,000 (2015: £240,000). The revaluation of Royal Avenue took place as part of the quinquennial revaluation of the RHC’s estate.

c) The RHC does not have a policy of actively acquiring new heritage assets, although a small number have been purchased e.g. a new stained glass window for All Saints Chapel. Many of the exhibits are accessible to the public visiting the site either in guided parties or individually.

12 - INVESTMENT PROPERTY

	2016 £'000s	2015 £'000s
Balance at 1 April	70,300	64,060
Disposal	(1,631)	-
Gain on revaluation	20,741	6,240
Balance at 31 March	89,410	70,300

Investment property consists of land and buildings which are not part of the RHC's operational estate. Most of the investment property is currently let on long or short term leases or licences. Investment property consists of Chelsea Court, Embankment Gardens, Wellington Buildings and Chelsea Gardens, Gordon House and Royal Avenue.

13 - LISTED INVESTMENTS (CHARITY & GROUP)

	2016 £'000s	2015 £'000s
Market value at 1 April	25,178	28,225
Additions at cost	4,526	900
Cost of investments sold	-	(6,260)
Realised gain/(loss)	12	(27)
Unrealised gain/(loss)	(1,511)	2,340
Market value at 31 March	28,205	25,178
Historic cost at 1 April	18,933	24,294
Historic cost at 31 March	23,626	18,933

Investments are held in the Alpha Common Investment Fund for Endowments managed by Sarasin & Ptnrs LLP. The objective of the Fund is to provide a growing annual income whilst preserving the real value of the capital over the long term. The Fund invests in a broadly diversified global portfolio covering the world's principal stock bond and currency markets together with investments in alternative assets such as property and hedge funds. In addition to the listed investments the RHC holds shares to the value of £417,000 in unquoted subsidiaries.

14 – STOCK

	Charity 2016 £'000s	Charity 2015 £'000s	Group 2016 £'000s	Group 2015 £'000s
Shop and catering stocks	-	-	132	128

Stock is valued at the lower of cost and net realisable value after allowance for obsolete and slow-moving items. Stock is held in two subsidiaries, Chelsea Pensioner (RH) Ltd for the shop and Tricorne Traders Ltd for the café. There is no material difference between the Balance Sheet value of stock and its replacement cost.

15 - DEBTORS - AMOUNTS FALLING DUE WITHIN ONE YEAR

	Charity 2016 £'000s	Charity 2015 £'000s	Group 2016 £'000s	Group 2015 Restated £'000s
Trade debtors	10	12	133	690
Prepayments and accrued income (restated – note 29)	163	920	190	1,066
Amounts due from subsidiary undertakings	-	-	-	-
Other debtors	99	23	393	25
Gordon House debtor due within 1 year	-	10,643	0	10,750
Total	272	11,598	716	12,531

16 - CASH AT BANK AND IN HAND

	Charity 2016 £'000s	Charity 2015 £'000s	Group 2016 £'000s	Group 2015 £'000s
Cash at bank and cash equivalents	10,221	12,447	15,222	14,972
Cash in hand	1	2	1	2
	10,222	12,449	15,223	14,974

17 - CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR

	Charity 2016 £'000s	Charity 2015 £'000s	Group 2016 £'000s	Group 2015 £'000s
Trade Creditors	1,312	1,689	1,369	1,753
Accruals and deferred income	1,451	478	1,640	1,961
Amounts due to subsidiary undertakings	3	(38)	-	-
Other creditors	0	438	1,486	505
Total	2,766	2,567	4,495	4,219

18 - CREDITORS - AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Charity 2016 £'000s	Charity 2015 £'000s	Group 2016 £'000s	Group 2015 £'000s
Chapel music foundation	90	91	90	91
Chapel fund	59	45	59	45
Advance funeral payments	18	13	18	13
Total	167	149	167	149

19 - PENSION LIABILITY

	Charity 2016 £'000s	Charity 2015 £'000s	Group 2016 £'000s	Group 2015 £'000s
Defined Benefit Pension liability	329	372	329	372

20 - CONTINGENT LIABILITIES

The RHC has no contingent liabilities.

21 – CONTINGENT ASSETS

Under the terms of the agreement for the sale of the lease of Gordon House the RHC is entitled to a further sum of £22.1m from the buyer once certain conditions related to the sale of the property have been met. It is not yet possible to say precisely when this payment will become due, but it is not expected to be before 2019 at the earliest.

22 - PENSIONS

During the year the RHC operated three pension schemes, as follows:

Principal Civil Service Pension Scheme (PCSPS)

Pension benefits for 164 (2015: 178) members of staff are provided through the Civil Service Pension arrangements. From 1 April 2015 a new pension scheme for civil servants was introduced – the Civil Servants and Others Pension Scheme or alpha, which provides benefits on a career average basis with a normal pension age equal to the member's State Pension Age (or 65 if higher). From that date all newly appointed civil servants and the majority of those already in service joined alpha. Prior to that date, civil servants participated in the Principal Civil Service Pension Scheme (PCSPS). The PCSPS has four sections: 3 providing benefits on a final salary basis (classic, premium or classic plus) with a normal pension age of 60; and one providing benefits on a whole career basis (nuvos) with a normal pension age of 65.

These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus, nuvos and alpha are increased annually in line with Pensions Increase legislation. Existing members of the PCSPS who were within 10 years of their normal pension age on 1 April 2012 remained in the PCSPS after 1 April 2015. Those who were between 10 years and 13 years and 5 months from their normal pension age on 1 April 2012 will switch into alpha sometime between 1 June 2015 and 1 February 2022. All members who switch to alpha have their PCSPS benefits 'banked', with those with earlier benefits in one of the final salary sections of the PCSPS having those benefits based on their final salary when they leave alpha. (The pension figures quoted for officials show pension earned in PCSPS or alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes.) Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

Employee contributions are salary-related and range between 3% and 8.05% of pensionable earnings for members of classic (and members of alpha who were members of classic immediately before joining alpha) and between 4.6% and 8.05% for members of premium, classic plus, nuvos and all other members of alpha. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as in premium. In nuvos a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. Benefits in alpha build up in a similar way to nuvos, except that the accrual rate is 2.32%. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% up to 30 September 2015 and 8% and 14.75% from 1 October 2015 (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary up to 30 September 2015 and 0.5% of pensionable salary from 1 October 2015 to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus, 65 for members of nuvos, and the higher of 65 or State Pension Age for members of alpha. (The pension figures quoted for officials show pension earned in PCSPS or alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes, but note that part of that pension may be payable from different ages.)

Further details about the Civil Service pension arrangements can be found at the website www.civilservicepensionscheme.org.uk

For 2016, employers' contributions of £879,245 were payable to the PCSPS (2015: £728,759) at one of four rates in the range of 16.7% to 24.3% of pensionable pay, based on salary bands.

No contributions were payable to stakeholder schemes in 2016.

NHS Pension Scheme (NHSPS)

The RHC has 74 (2015: 86) members of staff in the NHS Pension Scheme which is an unfunded multi-employer defined benefit scheme, but the RHC is unable to identify its share of the underlying assets and liabilities. The last formal actuarial valuation undertaken for the NHS Pension Scheme was completed as at 31 March 2004 (published in December 2007). Consequently, a formal actuarial valuation would have been due to have been completed as at 31 March 2008. However, formal actuarial valuations for unfunded public service pension schemes have been suspended by HM Treasury on value for money grounds while consideration is given to recent changes to public service pensions and while future scheme terms are developed as part of the reforms to public service pension provision. The primary purpose of the formal actuarial valuations is to set employer and employee contribution rates, and these are currently being determined under the new scheme design. Between valuations, the Government Actuary provides an update of the scheme's liabilities on an annual basis. The latest assessment of the liabilities of the scheme is contained in the Scheme Actuary report, which forms part of the NHS Pension Scheme (England and Wales) Resource Account, published annually.

These accounts can be viewed at the NHS Pensions Agency website at www.nhsbsa.nhs.uk/pensions. This is a statutory, defined benefit scheme, the provisions of which are contained in the NHS Pension Scheme Regulations 1995 and 2008. Under these regulations the RHC is required to pay an employer's contribution, currently 14% of pensionable pay, as specified by the Secretary of State for Health. For 2016, employers' contributions of £253,154 were payable to the NHS Pension Scheme (2015: £226,067). These contributions are charged to operating expenses as and when they become due.

Employees pay between 5% and 14.5% of pensionable pay. Employer and employee contributions are used to defray the cost of providing the scheme benefits. These are guaranteed by the Exchequer, with the liability to pay benefits falling to the Secretary of State, not to the RHC. Index linking costs under the Pensions (Increase) Act 1971 is met directly by the Exchequer. The scheme is notionally funded. Scheme accounts are prepared annually by the Department of Health and are examined by the Comptroller and Auditor General.

The scheme has a money purchase Additional Voluntary Contribution (AVC) arrangement provided by an approved panel of life companies. Under the arrangement the RHC can make contributions to enhance an employee's pension benefits. The benefits payable relate directly to the value of the investments made.

Unfunded scheme

Former Governors, Lieutenant Governors and Captains of Invalids are members of an unfunded defined benefit scheme. The scheme has 10 (2015: 12) retired members (or their widows) and is now closed to new entrants. The scheme is a final salary scheme with benefits based on number of years' service and final salary. Pensions paid during the year amounted to £38,513 (2015: £42,000).

Financial Reporting Standard 102 (FRS 102) – Retirement benefits

The latest FRS 102 valuation of the liabilities in respect of the unfunded pension entitlements was carried out as at 31 March 2016, by an independent qualified actuary, using the key FRS102 assumptions set out in the following table, which reflect the nature of the liabilities. These pensions are all currently in payment and increase with price inflation (measured using the Consumer Prices Index).

Assumptions	2016	2015
Price inflation/pension increase per annum	1.3%	1.6%
Discount rate per annum	2.5%	2.5%

On the basis of the assumptions used for life expectancy, a male pensioner currently aged 80 would be expected to live for a further 10 years (2015: 10 years).

The following table sets out as at 31 March 2016 the present value of the FRS 102 liabilities, which is equal to the gross pension liability, along with a 4-year history. No further benefits are currently being earned under this arrangement.

	2016 £000s	2015 £000s	2014 £000s	2013 £000s	2012 £000s
Defined Benefit Pension Scheme Liability	<u>329</u>	<u>372</u>	<u>390</u>	<u>414</u>	<u>425</u>

The gross pension liability resides within the RHC's unrestricted funds. Its only impact on the resources available for general application are, the annual payments to the pensioners of £39,000 for 2016 (2015: £42,000).

The gross pension liability under FRS 102 moved as follows during the year:

	Year to March 2016 £'000s	Year to March 2015 £'000s
Gross pension liability at the beginning of the year	372	390
Pensions Paid	(39)	(42)
Interest cost	9	13
Actuarial (gain)/loss on defined benefit pension scheme	<u>(13)</u>	<u>11</u>
Gross pension liability at the end of the year	<u>329</u>	<u>372</u>

The following amounts have been allocated across the "resources expended" categories of the SOFA:

	Year to 31 March 2016 £000s	2015 £000s
Interest on gross pension liability	<u>9</u>	<u>13</u>

The amount recognised in the "gains and losses" categories of SOFA under the heading "actuarial gains and losses on defined benefit pension schemes" for the year to 31 March 2016 is a gain of £13,000 (2015: loss of £11,000). The cumulative amount recognised in the "gains and losses" categories of the SOFA since 2003 (as required by paragraph 28 of FRS 102) is a loss of £136,000 (2015: loss of £149,000).

23 – OPERATING LEASES

Amounts payable under non-cancellable operating leases were as follows:-

	2016 £'000s	2015 £'000s
Within 1-5 years	34	0
Within 2-5 years	10	39
After more than 5 years	0	2

24 - CAPITAL COMMITMENTS

	2016 £'000	2015 £'000
Authorised and contracted	<u>1,407</u>	<u>12,523</u>

The sum for 2016 is predominantly for the final phase of the lead roof works and outstanding retention monies on earlier capital works completed late 2015 early 2016.

25 – LOSSES AND WRITE OFFS

There were no losses and write offs in the year ended 31 March 2016.

26 - MOVEMENT IN FUNDS	Balance as at 1 April 2015 £'000s Restated	Incoming resources £'000s	Resources expended £'000s	Other gains and (losses) £'000s	Transfers £'000s	Inter- company transactions £'000s	Balance at 31 March 2016 £'000s
Unrestricted funds							
Grant in Aid	(4,465)	12,806	(13,901)	13			(5,547)
Army Prize Money and Legacy Fund							
General reserve restated (note 29)	343,453	1,862	(118,110)	19,230	10,563	1,222	258,220
Ranelagh & De La Fontaine Trust Capital	7						7
Revaluation Reserve restated (note 29)	266,644			(266,644)			-
Gordon House London (Limited)	(196)		(2)				(198)
RHC Appeal Group Ltd restated (note 29)	1,804	4,931	(1,812)			(1,222)	3,701
Total Unrestricted Funds	607,247	19,599	(133,825)	(247,401)	10,563	-	256,183
Restricted funds							
Army Prize Money and Legacy Fund							
Campbell Ward	28					6	34
Cadogan Donation	22		(96)		100	1	27
IP Activities	4		(7)		(100)	175	72
MTI fund	35		(20)			19	34
Garden & Allotments	77					5	82
Gordon House Fund	14,506				(10,563)		3,943
RHC Appeal Group Ltd	6	204				(206)	4
Total restricted funds	14,678	204	(123)	-	(10,563)	-	4,196
Total funds	621,925	19,803	(133,948)	(247,401)	-	-	260,379

Unrestricted funds

The general funds consist of the accumulated surplus or deficit on the SOFA. They are available for use the discretion of the Commissioners in furtherance of the objectives of the RHC. No surplus is generated from Grant in Aid funds in accordance with the framework agreement with the Ministry of Defence.

Restricted funds

The **Campbell Ward Fund** represents donations raised through a special appeal to create a specialist dementia care facility at the RHC.

The **Cadogan Donation** fund is donated by the Cadogan Charity towards In-Pensioners' mobility and travel costs.

The **MTI Fund** consists of donations given specifically for the Margaret Thatcher Infirmary.

The **Gordon House Fund** represents the proceeds of the sale of the Gordon House lease. Under the terms of the Section 106 agreement with RBKC these proceeds may only be used for heritage capital expenditure.

The assets purchased are capitalised in the APML account when the various projects are completed.

27 - DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

The RHC derives a significant proportion of its income from quoted investments. These investments are managed by professional fund managers, currently Sarasin & Partners. The Board of Commissioners has established an Investment Committee to formulate the investment policy and to monitor its implementation, with the objective of safeguarding the RHC's assets and maximising total return from them. The Committee meets regularly with the Investment Managers and monitors their performance against agreed benchmarks.

A degree of risk is inherent in any quoted investment. Such investments are subject to:

Interest rate risk

The RHC has exposure to interest rate risk through its holdings in bonds and cash balances.

Currency risk

The RHC is exposed to currency risk through its holdings in non-UK assets. Approximately 25% of the quoted investment portfolio is held in assets valued in currencies other than sterling.

Market price risk

The RHC is exposed to market price movements through all its investment holdings, apart from funds held in cash.

All of these risks are managed by the investment managers under the supervision of the Investment Committee.

28 - POST BALANCE SHEET EVENTS

The subsidiary trading entity 'Tricorne Traders Limited' which undertakes commercial activities on behalf of the RHC transferred its assets, liabilities and activities to Chelsea Pensioner (RH) Limited with effect from 1 April 2016.

29 - FIRST TIME ADOPTION OF SORP (FRS102)

The charity has adopted the SORP (FRS 102) for the first time for the year ended 31st March 2016. The effect of transition from SORP 2005 to SORP (FRS 102) is outlined below:

a) Accounting policies

Consequential changes in accounting policies resulting from adoption of SORP (FRS 102) were as follows:

Earlier recognition of legacy income on the basis that amounts receivable by the Charity were reliable in terms of measurability and probability of receipt.

b) Reconciliation of RHC Appeal unrestricted funds (see note 26)

	2015 £'000s	2014 £'000s
Balance of funds as previously stated	621,812	614,969
2016 legacy income recognised in 2015	113	-
2015 legacy income recognised in 2014	-	441
Total charity funds under SORP (FRS 102)	621,925	615,410

c) Reconciliation of voluntary income

	2015 £'000s
Voluntary income under SORP 2005	1,315
2016 legacy income recognised in 2015	113
2015 legacy income recognised in 2014	(441)
Voluntary Income under SORP (FRS 102)	987

d) Reclassification of valuation gains on investment property as investment gains shown in unrestricted funds and not in the revaluation reserve

	2015 Revaluation Reserve £'000s	APML General Reserve £'000s
Previously reported	328,257	281,840
Gains on investment property transferred to unrestricted funds (APML general reserve)	(61,613)	61,613
Restated amount	266,644	343,453

This reclassification arises because FRS 102 requires revaluation gains on investment property to be shown in general reserves and not the revaluation reserve.

e) Restatement of 2015 gains and losses on investments in SOFA

	Gain/losses on investments £'000s
Previously reported	2,313
Revaluation gains on investment property	6,240

Restated amount	<u>8,553</u>

This restatement arises because FRS 102 requires that gains on investments be included in the net income/expenditure position and not as "other recognised gains/(losses)" as in previous years.

f) Restatement of 2015 net income in SOFA

	Net income £'000s
Previously reported	(1,673)
Gains on investments	8,553
Legacy income recognised in 2016 (note b above)	113
Legacy income recognised in 2014 (note b above)	<u>(441)</u>
Restated amount	<u><u>6,552</u></u>

g) Restatement of 2015 debtors – prepayments & accrued income

	£'000s
Previously reported	953
Legacy income recognised in 2016	<u>113</u>
Restated amount	<u>1,066</u>