

Royal Hospital Chelsea Account 2013-14

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Officers and Commissioners

Chairman of the Board of Commissioners

HM Paymaster General

Ex-officio Commissioners (as at 31 March 2014)

HM Paymaster General - Rt Hon F Maude MP

Minister of State for the Armed Forces – Rt Hon A Robathan MP (appointment ended 31 August 2013)

Minister of State for the Armed Forces – Rt Hon M Francois MP (appointed 1 September 2013)

Minister for Defence Personnel, Welfare and Veterans – Rt Hon M Francois MP (appointment ended 31 August 2013)

Minister for Defence Personnel, Welfare and Veterans – A Soubry MP (appointed 1 September 2013)

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

Director General of Army Medical Services – Major General E Carmichael MBE QHDS (appointment ended 31 August 2014)

Director General of Army Medical Services – Major General J Rowan OBE QHS (appointed 1 September 2014)

Assistant Chief of the General Staff – Major General DM Cullen OBE

Governor, Royal Hospital Chelsea – General Sir R Watt KCB KCVO CBE DL

Lieutenant Governor, Royal Hospital Chelsea – Major General APN Currie CB CBE (appointment ended 31 July 2014)

Specially Appointed Commissioners

M Waterson Esq CBE (Deputy Chairman)

S Corbyn Esq (re-appointed for third term)

A Titchmarsh Esq MBE VMH DL

J Fenwick Esq QC

Professor Lord Kakkar

FDS Rosier Esq

Mrs A Gillibrand (appointed 1 September 2013)

Dame B Monroe DBE (appointed 1 September 2013)

M Gallagher Esq (appointed 1 May 2014)

Charles Lewington Esq OBE (appointed 1 May 2014)

D McDonough Esq OBE (appointment ended 30 Apr 2014)

Professor Dame Janet Husband DBE FMedSci FRCP FRCR (appointment ended 31 July 2014)

Sir Thomas Hughes-Hallett (appointment ended 31 December 2013)

Accounting Officer and Chief Executive Officer

Major General APN Currie CB CBE (appointment ended 31 July 2014)

Major General D McDowall CBE (appointed 4 August 2014)

Secretary

PWD Hatt Esq

Registered address

Royal Hospital Chelsea

Royal Hospital Road

London SW3 4SR

Web site: www.chelsea-pensioners.org.uk

Telephone: 0207 881 5200

Auditors

The Comptroller and Auditor General

National Audit Office

157-197 Buckingham Palace Road

London SW1W 9SP

Subsidiary auditors	PKF Littlejohn LLP 1 Westferry Circus Canary Wharf London E14 4HD
Internal auditors	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 managers	Sarasin & Partners LLP Juxon House 100 St. Paul's Churchyard London EC4M 8BU
Chartered surveyors	Savills (UK) Limited 33 Margaret Street London W1G 0JD
Property maintenance	Norland Managed Services Ltd 57 Southwark Street London SE1 1RU
Bankers	Barclays Bank plc 1 Churchill Place London E14 5HP Lloyds Bank plc 25 Gresham Street London EC2V 7HN Santander UK plc 2 Triton Square Regent's Place London NW1 3AN

Annual Report of the Commissioners

Introduction

The Royal Hospital Chelsea 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 13 which outlines in detail the structure and governance of the Royal Hospital Chelsea and its Board.

Governing documents and charitable objectives

The statutory authority for the Royal Hospital Chelsea is founded on 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 Royal Hospital Chelsea 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 Royal Hospital Chelsea are the care of the In-Pensioners and the conservation of its historic buildings and grounds. The cost of major capital projects and the upkeep of the grounds is not met from the annual Grant in Aid from the Ministry of Defence but paid out of the Army Prize Money and Legacy Fund, a private fund owned 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 Royal Hospital Chelsea provides those in its care with 24-hour cover for 365 days of the year. The number of staff at the Royal Hospital Chelsea were 228 (2013: 224) full and part-time of whom 80 (2013: 81) were medical, nursing and care staff.

The annual Grant in Aid provides in large part, but by no means entirely, for the medical care for In-Pensioners, staff costs and other costs relating to the welfare of In-Pensioners as well as maintenance of the Royal Hospital Chelsea buildings and for meeting the cost of fuel and lighting, food, furniture, and clothing. In exchange, the In-Pensioners surrender their Army long service and/or their disability pensions when they are admitted to the Royal Hospital Chelsea. There is also a minimum charge for those who do not have such pensions or whose pensions are very small. The Grant in Aid is governed by a Financial Framework document signed on 4 August 2014.

Public benefit statement

The Commissioners have referred to the Charity Commission's general guidance on Public Benefit when reviewing the Royal Hospital Chelsea's aims and objectives and in planning its future activities. In particular the Commissioners consider how planned activities contribute to the aims and objectives that they have set.

The Royal Hospital Chelsea provides sheltered accommodation for Army veterans aged 65 or over and has care home facilities for use by former occupants of the sheltered accommodation, and for others who may, exceptionally, be admitted directly into care. In addition to providing accommodation, food and nursing care, the Royal Hospital Chelsea 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. They also make a contribution to the well-being of other groups of veterans, including those in prison and homeless, through an outreach programme.

The Commissioners' current aims include the modernisation of the In-Pensioners' accommodation so that it remains fit for purpose in the 21st Century, and the restoration and maintenance of the heritage buildings and grounds. The programme to upgrade the Long Ward accommodation is well advanced and will be completed in the 2015-16 financial year. Further improvements to the estate are planned and have been endorsed in principle by the Board.

Monitoring of performance

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

Employees

Employees are kept well informed of the performance and objectives of the Royal Hospital Chelsea 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.

The Royal Hospital Chelsea places a high priority on equal opportunities and has continued its policy of giving the disabled full and fair consideration for all job vacancies for which they offer themselves as suitable applicants, having regard to their particular aptitudes and abilities.

Volunteers

The Royal Hospital Chelsea 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 Royal Hospital Chelsea'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.

Review of achievements and performance for the year 2013-2014

Report from the Chief Executive Officer (outgoing Lieutenant Governor Major General APN Currie CB CBE)

Corporate Objectives 2013-14

The Corporate Objectives identify the core tasks which are to be achieved over the next 3 – 5 years.

Objective 1: Providing Additional Services

We have continued to work with the Soldiers, Sailors, Airmen and Families Association (SSAFA) to establish a respite break facility in the Margaret Thatcher Infirmary (MTI), and with the Royal British Legion (RBL) to establish a 'hub' for veterans on our campus. That the former initiative has not borne fruit is disappointing, but more detailed work has revealed that demand for respite care in the London area is lower than anticipated by our potential partners. As for the proposed hub, we have now signed a lease with the RBL and allocated them a number of offices from which to work. In the meantime much continues to be done to help other charities including the Army Benevolent Fund (ABF) The Soldiers' Charity, Combat Stress and Gardening Leave, while links with SSAFA and Veterans' Aid continue to develop, as does the outreach programme. Finally, we took 7 In-Pensioners more or less directly into the MTI during 2013, thereby conforming with the Commissioners' decision to adjust slightly the balance of recruitment in favour of those with greater need.

Objective 2: Long Ward modernisation programme

Sound progress continues to be made. Temporary accommodation was commissioned, imported, set up and occupied to plan. The East Wing was completed and handed over to the Royal Hospital Chelsea by Wates Group Limited on 28 March 2014, some 2 weeks ahead of the contracted programme and circa £200,000 under budget. The East Wing is now fully occupied, and work has started on the West Wing and North West Pavilion. The modernisation of the accommodation has been strongly welcomed by the In-Pensioners.

Objective 3: Business development

Over the past year we have continued to make solid progress on the estate plan. The project to improve the drainage and resurface the roads in the South Grounds was completed on time and came in circa £200,000 under budget. Work has started on the Prince of Wales Yard and it is anticipated the project will take a year until August 2015. Proposals for the improvement of the South Terrace have been progressed and a planning application is being prepared. Work to the Soane Stable Block and environs is being advanced.

The partnership with Central Health has continued to develop and last year delivered a net profit of £35,000, which we expect to increase to circa £45,000 over the next 12 months. Income from additional services has also increased, but this is likely to come under threat this year as a result of policy changes within the NHS. Restructuring within the NHS might also have an impact on our GP arrangements.

Objective 4: Safeguarding the heritage

Over the past year we have restored the lead roofs of the Secretary's Block and Great Hall, and are currently carrying out a survey of the brickwork and slate roofing across the site. Meanwhile routine maintenance work has continued in line with the Royal Hospital Chelsea Condition Survey, which has itself been updated.

Objective 5: Internal efficiency

Having made a 6% reduction in staff costs in real terms against inflation over the 3-year period 2008 to 2011, we set ourselves a further target of reducing real costs year on year with a report against the April 2011 baseline after 3 years. Since then our programme of new projects and maintenance work has expanded and in some cases accelerated, and we have also introduced a new domiciliary care service. Thus a direct comparison is not possible. That said, we can demonstrate efficiencies in the following areas:

- **Staff Costs.** Careful management of staff has continued and as a result, the increase in staff costs over the period is below inflation.
- **Utilities.** New boilers have contributed to a marked decrease in the consumption and cost of gas. The cost of electricity and water, however, have both been driven up by inflation, and some increase in consumption of these utilities is anticipated following occupation of the temporary accommodation (which is very heavy on electricity) and the East Wing.
- **Laundry.** The retendering of the laundry contract has seen a reduction in annual costs of £30,000, a saving of 18%. Moreover, the laundry service is now off site, which has released spare capacity in the Prince of Wales Yard for alternative use.
- **Insurance brokerage** was put out to tender and the new contract will deliver a reduction in cost of circa £16,000 a year.
- **Consumables.** Prudent management and strict control in the Facilities Management area has delivered a reduction in the cost of consumables of circa £100,000 a year. This includes items such as stationery, clothing and medical stores. In addition, contract retendering has reduced the cost of the Founder's Day stands by £50,000 over the past 3 years.
- **Accommodation.** The hiring of available accommodation to visitors is now generating circa £15,000 a year.
- **MTI.** Increasing use of the nurse bank rather than agency staff to cover maternity leave has delivered efficiencies in the cost of manpower in the MTI, where 2 part-time posts are also being left vacant. Meanwhile the time-consuming mandatory staff training programme is being delivered during working hours to avoid the cost of paying staff to attend on rest days. This has required training by the Senior Staff Nurse in order to provide a flexible presence throughout the 24-hour period.
- **Catering.** Over the past 2 years the standard of catering across the Royal Hospital Chelsea has improved markedly with no increase in staffing and below inflation increases in the cost of consumables.

Other in-year priorities

Further Developments in the provision of care

The past year has seen further progress in the care domain. In relation to dementia, there have been measurable improvements both in the therapeutic environment of Campbell Ward and the well-being of staff, all of whom have successfully completed accredited dementia care training. Established indicators now score the physical environment at 98% and workforce well-being at 96%. In addition, roll-out of the domiciliary care service has taken place successfully and early indicators are that it is proving beneficial to those In-Pensioners on the Long Wards who would otherwise need earlier admission to the MTI. On the medical side, the partnership with the Stanhope Mews general practice remains strong.

Business development

Within the Commercial Department the priorities this year have been the development of a new fundraising strategy covering legacies, donations, the Friends and Corporate Friends through the associated charity Friends of the RHC; working up messaging which positions the Royal Hospital Chelsea as a charity which merits and needs support; improving our suite of marketing material and the web site, and training what is still a relatively new team. Much of this has been foundation work, the benefits of which will be felt downstream as awareness of the Royal Hospital Chelsea as a charity continues to grow, but there are indications it is already having an impact. In relation to legacies, an area the Board felt merited particular attention, the Royal Hospital Chelsea has partnered with Smee and Ford, (experts in the field), who alert us to opportunities where legacies are uncommitted to specific charities.

Reputation

At the tactical level this has been another year during which the Royal Hospital Chelsea has received extensive and highly positive coverage, notably around the funeral of Lady Thatcher and the move from the West Wing into the modernised accommodation of the East Wing. There have also been several well-placed articles in the national and local press and in professional publications, as well as some positive TV coverage and opportunities to speak at national care conferences. Taken together these have helped position the Royal Hospital Chelsea as a model of care for the elderly in a community, not least in relation to those with dementia. At a more strategic level we have continued to develop the work done for us by the Bell-Pottinger consultancy, which has been particularly useful in enabling the development of a new, improved range of fundraising literature and in the redesign of our website.

Contracts and leases

During the course of the year we have negotiated a new contract with the Royal Horticultural Society (RHS) at a substantially higher level with an annual uplift built in. At the same time the Royal Borough of Kensington and Chelsea (RBKC) has surrendered its lease on the South Grounds. The KIDS lease expired in June 2014, and lease renewal negotiations are in progress. Formal leases and licences have now been put in place for all third parties who make use of facilities on our site.

Financial review and results for the year

Grant in Aid

The Grant in Aid funds the majority of the care of the In-Pensioners, including accommodation food and utilities. The total funding received from the Ministry of Defence was £11,452,000 (2013: £11,276,000). Additionally other incoming resources such as staff costs and accommodation recoveries and NHS pension cost recoveries totalled £504,781 (2013: £426,996) for the year. In the year total resources expended that met the criteria for Grant in Aid were £13,316,908 (£12,994,941) and additionally there was an actuarial loss of £6,000 (2013: £13,000) on the defined benefit pension scheme. At the end of year there was a net deficit of £1,401,261 (2013: £1,304,331). This deficit is funded from Army Prize Money and Legacy fund where it is covered by income from the trading subsidiaries.

Army Prize Money and Legacy Fund

The Army Prize Money and Legacy Fund had total income of £7,357,588 (2013: £4,780,209). Other than income from the subsidiaries noted below, the increase since last financial year arises due to an increase in investment property income (including lease premium extensions) of £1,189,470. Additionally the management investment portfolio yielded income of £1,114,234 (2013: £591,897) for the year an increase of £522,337 on the prior year. Of the total voluntary income of £2,700,680 (2013: £2,521,400) for the year an amount of £336,550 (2013: £489,408) was restricted.

Total funds donated from Royal Hospital Chelsea Appeal Ltd Group amounted to £2,555,084 (2013: £1,861,424). Trading results of the subsidiaries are discussed below and further details are contained in note 10 to the accounts.

Revenue expenditure charged to the Army Prize Money and Legacy Fund was £7,159,097 (2013: £8,730,908) of which £6,220,853 (2013: £6,719,631) related to depreciation on fixed assets.

Trading subsidiaries

Royal Hospital Chelsea Appeal Ltd Group

At the end of the year Royal Hospital Chelsea Appeal Ltd Group held reserves of £1,602,606 (2013: £1,932,973) of which £44,456 (2013: £256) was restricted. The reduction in reserves is largely due to the increased donation from the Royal Hospital Chelsea Appeal Ltd Group to the Army Prize Money and Legacy Fund in FY2013-14. 2013-14 Gift aid from Chelsea Pensioner (RH) Ltd was £1,188,105 (2013: £1,406,368) and from Tricorne Traders Ltd was £211,421 (2013: £155,292). RHC Appeal Ltd Group reserves are maintained at a level to meet the charitable objectives of the organisation.

During the year the subsidiaries donated a total of £2,555,084 (2013: £1,861,424) to the Royal Hospital Chelsea of which £223,125 (2013: £389,408) was restricted. The total is predominantly made up of the FY2012-13 gift aid amounts from Chelsea Pensioner (RH) Ltd and Tricorne Traders Ltd of £1,406,368 and £155,292 respectively that are only donated through to the ultimate parent undertaking after the accounts have been audited. In addition Royal Hospital Chelsea Appeal Ltd itself raised £970,396 (2013: £1,006,535) during the year of which £407,649 (2013: £254,477) unrestricted and £223,125 (2013: £389,408) restricted income was donated to the Royal Hospital Chelsea during the year. The remaining £339,622 (2013: £362,650) was retained with a view to donate more during FY2014-15.

Gordon House (London) Ltd

Gordon House (London) Ltd was incorporated in FY2012-13 in order to assist the Commissioners of the Royal Hospital Chelsea with the sale of the lease of the property known as Gordon House, which was achieved in the prior year. The subsidiary made a loss in FY2013-14 and therefore has not gift-aided any of its income for the year to its parent undertaking the Royal Hospital Chelsea.

Pension liability

Although most of the employees of the Royal Hospital Chelsea 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 14 retired members (or their widows), and has been closed to new entrants. 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 £390,000 (2013: £414,000) attributable to the Grant in Aid fund (see note 20).

Reserves policy

The Royal Hospital Chelsea's available reserves are defined for the purposes of this policy as its unrestricted net current assets. This is because the total balance sheet reserves include non-cash items such as revaluation reserve and additionally carry restricted reserves that have a specific purpose.

As at 31 March 2014 the total balance sheet reserves stood at £614,969,041 (2013: £610,683,292). This amount includes a Revaluation Reserve of £322,017,416 (2013: £316,857,416).

Also included in the above total are restricted funds of £25,739,456 (2013: £38,340,110) of which £25,634,586 (2013: £38,291,235) relates to the Gordon House Restricted Fund (including the revaluation of Gordon House). These funds are restricted under a S106 agreement with the Royal Borough of Kensington and Chelsea to use for heritage capital expenditure following the disposal of the Gordon House Leasehold. In the first instance they will be used to fund the balance of the Long Ward modernisation project, completion of which will take place in FY 2015-16. The balance of this restricted fund, which is available for other capital projects, is currently invested in a ring-fenced fund where it will remain until required.

Total group net current assets at the year-end equated to £14,898,760 (2013: £13,306,344). Of this, £11,075,899 (2013: £11,199,624) related to restricted Gordon House proceeds, £44,456 (2013: £256) related to Royal Hospital Chelsea Appeal Ltd Group restricted reserves and £60,414 (2013: £48,619) related to Army Prize Money and Legacy Fund restricted reserves. This leaves the Royal Hospital Chelsea with unrestricted net current assets of £3,822,861 (2013: £2,106,720) sufficient to cover approximately two months operating cash expenditure (2013: two months).

The Board of Commissioners have endorsed a policy to establish an endowment in order to secure the long term future of the Royal Hospital Chelsea on its historic site against any future reduction in Grant in Aid and/or cost growth. As it develops, this endowment will itself constitute a reserve.

Investment policy

The Commissioners of the Royal Hospital Chelsea have set an investment policy with the objective of providing capital growth in real terms over the longer term, thereby enabling the Commissioners to meet their objectives in respect of the current and future requirements of the Charity.

The Commissioners, in delegating their investment management powers, 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 Charity.

Investment Objectives

- **Army Prize 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 (designated capital expenditure) Fund:** To achieve capital growth over the medium term with a medium level of risk. Income from the portfolio will be paid over to the Army Prize Money and Legacy investment portfolio.
- **Income Fund:** To be invested on a short term basis to maximise income with no capital risk. This Fund will hold Gordon House Fund monies that will be required for project payments in the next 18 months.

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

Tangible fixed assets

The Royal Hospital Chelsea's operational land and buildings were professionally valued in March 2012. In accordance with the Royal Institution of Chartered Surveyors guidance, the valuation basis is depreciated replacement cost. This basis is intended to measure the value to the Royal Hospital Chelsea of the assets in their present location, use and condition. These assets are due to be fully revalued again in 2017 in line with the accounting policy contained in the notes to the accounts.

At the end of the financial year the operational land and buildings have a net book value of £472,458,833 (2013: £467,281,603). There are assets under construction of £6,480,497 (2013: £5,079,559) which relate to the on-going major refurbishment of the Long Wards. The East-Wing phase (£8,411,769) and Roads project (£2,682,471) were completed during the year and has thus been reclassified to land and buildings as at 31 March 2014.

Investment property had a value of £64,060,000 (2013: £58,900,000) at the year-end. The net increase in value of £5,160,000 was the result of a revaluation of investment properties on 31 March 2014.

In order to comply with FRS 30: Heritage Assets, exhibits were revalued in June 2011. The current value of exhibits is £15,834,766 (2013: £15,785,266). These assets are due to be valued again in 2016-17.

Plant machinery and equipment has a net book value of £2,709,043 (2013: £2,583,953) and vehicles have a net book value of £123,612 (2013: £112,617).

Audit arrangements

The consolidated accounts of the Royal Hospital Chelsea were audited by the National Audit Office. The Comptroller and Auditor General remains responsible for the audit certificate in accordance with the Letters Patent dated 21 November 2003. An audit fee of £40,000 has been charged for the audit (2013: £40,000) and is included in the Governance costs. No non-audit work was carried out by the auditor in 2013-14.

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 the steps they ought to have taken 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

On 4 August 2014, Major General D McDowall CBE was appointed CEO and Accounting Officer for Royal Hospital Chelsea. Major General McDowall has received full assurances from the Commissioners and Management Board that the information contained in the above review of achievements is a factual and complete record of the 2013-14 financial year.

Major General D McDowall CBE
Chief Executive Officer & Accounting Officer
On behalf of the Board of Commissioners

21 October 2014

Governance Statement

Governance Framework

Statutory Governing Documents

The statutory authority for the Royal Hospital Chelsea is founded on Letters Patent from the Crown, the current Letters Patent having been issued on 21 November 2003. This vests responsibility for the management of the Royal Hospital Chelsea in a Board of Commissioners. The Paymaster General is formally the Treasurer of the funds and Chairman of the Board of Commissioners who administer them, although in practice the Governor invariably takes the Chair. In meeting the requirements of its Letters Patent, the Royal Hospital Chelsea operates like a charity in its governance arrangements, and aims to respect fully and to observe closely best practice for charitable bodies as set out by the Charity Commission. The Royal Hospital Chelsea 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 Royal Hospital Chelsea is an arms-length body (ALB) in relation to the Ministry of Defence and it receives Grant in Aid funding which is governed by a Financial Framework arrangement (signed on 4 August 2014) which outlines restrictions on the use of the Grant in Aid funding and reporting requirements. This Framework includes the appointment of an Accounting Officer who is personally responsible, in accordance with a letter of delegation from the Permanent Under-Secretary of the Ministry of Defence, for the reporting to Parliament of the proper and efficient use of the Grant in Aid funds. The Accounting Officer, with the Board of Commissioners, 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 4 August 2014. In addition, the Chief Executive Officer has changed from Major General APN Currie CB CBE to Major General D McDowall CBE as of 4 August 2014. The Chief Executive Officer remains the Accounting Officer.

In taking up his position of CEO, Major General McDowall was thoroughly briefed by his predecessor on the governance of the Royal Hospital Chelsea. He has had extensive discussions with Management Board and Commissioners on RHC governance and has reviewed key documents and processes. He has taken advice from all relevant staff on a number of issues and had substantial discussions with auditors. He has had formal Accounting Officer training. In the light of these steps, Major General McDowall has been able to form the reasonable view that the following paragraphs accurately reflect the governance of the Royal Hospital Chelsea.

Charity Accounting and reporting responsibilities

The Royal Hospital Chelsea materially complies with the guidelines laid down in the Charities SORP 2005. 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;
- 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 Royal Hospital Chelsea 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 Royal Hospital Chelsea's 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 and any relevant conflicts of interest are duly recorded as they arise. During the year under review the only interest declared was by Mr A Titchmarsh in relation to discussions surrounding the renewal of the Chelsea Flower Show contract with Royal Horticultural Society.

Organisational Structure, governance and decision-making

The Royal Hospital Chelsea 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 it is supported by a number of subordinate committees.

The Chief Executive Officer (CEO) for the Royal Hospital Chelsea 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 Royal Hospital Chelsea 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 Hospital 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 scrutiny under 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 Lieutenant Governor (Chief Executive Officer) are always present and there is invariably a substantial majority of the remainder (excluding Ministers, who do not attend). At each meeting the Board considers a comprehensive report from the Chief Executive Officer covering all aspects of the Royal Hospital Chelsea'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 and frequently engage outside formal 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

Reporting to the Board there are six committees to which the lead is delegated for the 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. In addition, the Governor, as Chairman of the Board, has the right to attend any committee with the agreement of its Chairman. The six committees are as follows:

Audit Committee

The Audit Committee is made up of the following Commissioners:

Mrs A Gillibrand (Chair) (appointed 26 March 2014)

S Corbyn Esq

FDS Rosier Esq

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

M Waterson Esq CBE (resigned 26 March 2014)

Major General APN Currie CB CBE (resigned 31 July 2014)

The Audit Committee met twice during the year under review to consider financial management and reporting, the high level risk register and the reports of the RHC's auditors. Substantial improvement was noted in all areas of financial management and reporting, despite some further unwelcome turbulence in the staffing of the Finance Department. A new framework agreement with the MOD has been signed and all letters of delegation have been reviewed and re-issued for the FY 2014-15.

Nominations Committee

The Nominations Committee is made up of the following Commissioners:

M Waterson Esq CBE (Chair) (appointed 1 September 2013)

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

Mrs A Gillibrand (appointed 1 September 2013)

Professor Dame J Husband DBE FMedSci FRCP FRCR (Chair) (resigned 31 August 2013)

D McDonough Esq OBE (resigned 30 Apr 2014)

The Nominations Committee met three times 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 and Lieutenant Governor.

In the year under review and to the date of signing this report, four new Specially Appointed Commissioners were appointed whilst three Commissioners completed their second term. One Commissioner was re-appointed for a third term. The Secretary to the Board ensures that each Commissioner completes a programme of induction on appointment and is thereafter provided with all relevant information and support.

Remuneration Committee

The Remuneration Committee is made up of the following Commissioners:

M Waterson Esq CBE (Chair)

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

J Fenwick Esq QC

The Committee met once for its annual review to consider an independently-commissioned pay benchmarking report and make recommendations on the remuneration of the staff for the forthcoming year.

Investment Committee

The Investment Committee is made up of the following Commissioners:

FDS Rosier Esq (Chair)
 Professor Lord Kakkar
 C Lewington Esq OBE (appointed 1 May 2014)
 Sir T Hughes-Hallett (resigned on 31 December 2013)
 Major General APN Currie CB CBE (resigned 31 July 2014)

The Investment Committee met twice during the year under review. In that time they conducted a review of the Royal Hospital Chelsea's investment management arrangements and performance of Sarasin & Partners LLP. The Investment Committee reports back to the Board on performance and, where appropriate, seeks the advice of the Board on policy issues.

Clinical Governance Oversight Committee

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

Dame B Monroe DBE (Chair) (appointed 1 September 2013)
 Professor Lord Kakkar
 M Gallagher Esq (appointed 1 May 2014)
 Major General J Rowan OBE QHS - Director General of Army Medical Services (appointed 22 September 2014)
 Professor Dame J Husband DBE FMedSci FRCP FRCR (Chair) (resigned 31 August 2013)
 Sir T Hughes-Hallett (resigned 31 December 2013)
 Major General APN Currie CB CBE (resigned 31 July 2014)
 Major General E Carmichael MBE QHDS - Director General of Army Medical Services (resigned 31 August 2014)

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 considered in particular the implications of the Francis Report for the RHC in general and the Board in particular, the application of the Quality First programme, progress with dementia and end of life care, and the future management of therapy services. In all areas good progress was noted.

Estates Committee

The Estates Committee is made up of the following Commissioners:

S Corbyn Esq (Chair)
 C Lewington Esq OBE (appointed 1 May 2014)
 M Waterson Esq CBE
 A Titchmarsh Esq MBE VMH DL
 D McDonough Esq OBE (resigned 30 Apr 2014)
 Major General APN Currie CB (resigned 31 July 2014)

The Estates Committee met four times during the year under review. It continues to take an holistic approach to the development of the buildings and grounds, with a particular focus during the period under review on development plans for the Prince of Wales Yard, the Soane stable block and environs and plans to improve the South Terrace. The Committee also oversaw a comprehensive review of all leases and licenses to ensure they were current and remained relevant, and monitored the overall capital expenditure programme.

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 of:

Major General D McDowall CBE (Chair/CEO/Accounting Officer) (appointed 4 August 2014)

Major General APN Currie CB CBE (Chair/CEO/Accounting Officer) (resigned 31 July 2014)

Quartermaster (Director of Facilities) – Lieutenant Colonel A Hickling

Matron (Director Care Services) – Colonel L Bale

Adjutant (Director Welfare) – Colonel S Bate

Finance Director – Ms J Kucharska

Commercial Director – J Blake Esq (resigned on 4 July 2014)

Interim Commercial Director – S Hudd Esq (interim appointment 14 July 2014)

Also in attendance are:

Secretary – PWD Hatt Esq

Physician & Surgeon – Dr F Keating

Chaplain – The Rev R Whittington (resigned 6 October 2013)

Chaplain – The Rev S Brookes (appointed 7 October 2013)

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 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 Royal Hospital Chelsea. 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.

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 Royal Hospital Chelsea (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 Royal Hospital Chelsea with the sale of the lease of the property known as Gordon House, which was achieved in the prior year. The Company is a wholly owned subsidiary of the Royal Hospital Chelsea 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 Royal Hospital Chelsea (through the Army Prize Money and Legacy Fund).

Review of 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 Royal Hospital Chelsea'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 Royal Hospital Chelsea'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.

Management Board and department budget holders are always informed of changes to any financial or regulatory control and reporting requirements. In the end of the year under review further financial controls and procedures were implemented to provide a more effective and robust system of financial control.

External audits

The consolidated accounts of the Royal Hospital Chelsea were 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. This audit will be put out to tender in FY2014-15.

Internal audits

In addition to the two external auditors, the Royal Hospital Chelsea Group is also subject to regular internal audits to standards defined in the Government Internal Audit Manual which includes the Internal Auditors' independent opinion on the adequacy and effectiveness of the Royal Hospital Chelsea's system of internal control together with recommendations for improvement. The current internal auditors are Crowe, Clarke & Whitehill LLP. In addition the Royal Hospital Chelsea is from time to time audited 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.

Fraud prevention and detection

The Royal Hospital Chelsea has in place a set of values and a code of conduct to which all members of staff are required to adhere. In addition, because they are working with vulnerable adults all members of the staff are subject to criminal record 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 Royal Hospital Chelsea'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 at the Royal Hospital Chelsea 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 initial impact and initial probability 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 Royal Hospital Chelsea 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. A priority is now being given to developing charitable income from legacies, and 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. Risk is further mitigated by the comprehensive internal and external audit programme which explores not just the regularity and efficiency of the Royal Hospital Chelsea's financial management but also its business processes.

b Reputational

This is managed by having clear policies in place for handling the media, by employing a Public Relations consultancy firm to provide advice and manage an active Public Relations programme, and by training key staff. In addition, reputation is a standing item on the agenda for all meetings of the Board of Commissioners.

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 Royal Hospital Chelsea

The Royal Hospital Chelsea 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 site. 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 Royal Hospital Chelsea 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. The Armed Forces charitable field is very heavily populated and competition for funds is likely to get greater. This has the potential to affect fundraising.
- The declining military/veteran community which has the potential in the long term to 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 Royal Hospital Chelsea'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. A Board effectiveness review was completed in this financial year and Commissioners identified some process improvements which have since been implemented.

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 Royal Hospital Chelsea's aims, namely the welfare and care of the In-Pensioners and the conservation of its heritage buildings and grounds.

Following the requirements of the Corporate Governance code, the Board 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 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 Royal Hospital Chelsea 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.

Major General D McDowall CBE
Chief Executive Officer & Accounting Officer
On behalf of the Board of Commissioners

21 October 2014

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

I certify that I have audited the financial statements of the Royal Hospital Chelsea for the year ended 31 March 2014 under the Chelsea Hospital Act 1876. The financial statements comprise: the Group and Parent Statements of Financial Activities, the Group and Parent Balance Sheets, the Group Cash Flow Statements and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Trustees/Board, Accounting Officer and Auditor

The Commissioners and 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 the 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 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 certificate.

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 2014 and of its incoming resources and application of resources 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 them.

Opinion on other matters

In my opinion:

- the information given in the Annual Report of the Commissioners; Aims, Objectives and Activities; Review of Achievements and performance for the year; 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 KCB
Comptroller and Auditor General

17 November 2014

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

Consolidated Statement of Financial Activities for the year ended 31 March 2014

	Notes	Unrestricted 2014 £	Restricted 2014 £	Total Group 2014 £	Total 2013 £
Incoming resources					
Incoming resources from generated funds					
Voluntary income	2	735,242	380,750	1,115,992	1,402,994
Activities for generating funds	3	2,650,904	–	2,650,904	2,718,149
Investment income	4	3,931,779	–	3,931,779	2,262,260
Incoming resources from charitable activities					
Grant in Aid from the Ministry of Defence	5	11,452,000	–	11,452,000	11,276,000
Other incoming resources					
	6	1,243,643	–	1,243,643	436,426
Total incoming resources		20,013,568	380,750	20,394,318	18,095,829
Resources expended					
Costs of generating funds					
Costs of generating voluntary income	7	1,175,047	–	1,175,047	2,092,622
Fundraising trading	7	800,166	–	800,166	780,959
Investment management costs	7	147,889	–	147,889	6,254
Charitable activities					
Infirmary nursing and medical	7	6,424,764	–	6,424,764	6,585,021
Welfare and ceremonial	7	6,935,673	104,480	7,040,153	7,322,963
Estate management	7	6,128,334	–	6,128,334	6,083,250
Governance costs					
	7/9	170,417	–	170,417	179,150
Total resources expended		21,782,290	104,480	21,886,770	23,050,219
Net (outgoing)/incoming resources before transfers		(1,768,722)	276,270	(1,492,452)	(4,954,390)
Transfers					
Gross transfers between funds		12,876,924	(12,876,924)	–	–
Net incoming/(outgoing) resources before other recognised gains and losses	27	11,108,202	(12,600,654)	(1,492,452)	(4,954,390)
Other recognised gains/(losses)					
Gains/(losses) on revaluation of fixed assets	12	5,160,000	–	5,160,000	36,603,313
Realised gains on investment assets	13	24,581	–	24,581	255,000
Unrealised gains/(losses) on investment assets	13	681,323	–	681,323	2,120,958
Gains/(losses) on disposal of fixed assets	11	(81,703)	–	(81,703)	8,381,175
Actuarial (losses) on defined benefit pension schemes	23	(6,000)	–	(6,000)	(13,000)
Net movement in funds		16,886,403	(12,600,654)	4,285,749	42,393,056
Reconciliation of funds					
Total funds brought forward	27	572,343,182	38,340,110	610,683,292	568,290,236
Total funds carried forward		589,229,585	25,739,456	614,969,041	610,683,292

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

Statement of Financial Activities – Charity for the year ended 31 March 2014

	Notes	Unrestricted 2014 £	Restricted 2014 £	Total 2014 £	Total 2013 £
Incoming resources					
Incoming resources from generated funds					
Voluntary income	2	2,364,130	336,550	2,700,680	2,521,400
Activities for generating funds	3	–	–	–	–
Investment income	4	3,918,967	–	3,918,967	2,249,993
Incoming resources from charitable activities					
Grant in Aid from the Ministry of Defence	5	11,452,000	–	11,452,000	11,276,000
Other incoming resources					
	6	1,243,643	–	1,243,643	436,426
Total incoming resources		18,978,740	336,550	19,315,290	16,483,819
Resources expended					
Costs of generating funds					
Costs of generating voluntary income	7	591,435	–	591,435	1,603,716
Fundraising trading	7	–	–	–	–
Investment management costs	7	147,889	–	147,889	6,254
Charitable activities					
Infirmity nursing and medical	7	6,424,764	–	6,424,764	6,585,021
Welfare and ceremonial	7	6,935,673	104,480	7,040,153	7,322,963
Estate management	7	6,128,334	–	6,128,334	6,083,250
Governance costs					
	7/9	143,430	–	143,430	124,645
Total resources expended		20,371,525	104,480	20,476,005	21,725,849
Net (outgoing)/ incoming resources before transfers		(1,392,785)	232,070	(1,160,715)	(5,242,030)
Transfers					
Gross transfers between funds		12,876,924	(12,876,924)	–	–
Net incoming/(outgoing) resources before other recognised gains and losses	27	11,484,139	(12,644,854)	(1,160,715)	(5,242,030)
Other recognised gains/(losses)					
Gains/(losses) on revaluation of fixed assets	12	5,160,000	–	5,160,000	36,603,313
Realised gains on investment assets	13	23,821	–	23,821	255,000
Unrealised gains/(losses) on investment assets	13	689,677	–	689,677	2,112,604
Gains/(losses) on disposal of fixed assets	11	(81,703)	–	(81,703)	8,297,275
Actuarial (losses) on defined benefit pension schemes	23	(6,000)	–	(6,000)	(13,000)
Net movement in funds		17,269,934	(12,644,854)	4,625,080	42,013,162
Reconciliation of funds					
Total funds brought forward	27	570,595,579	38,339,854	608,935,433	566,922,271
Total funds carried forward		587,865,513	25,695,000	613,560,513	608,935,433

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

Balance Sheet as at 31 March 2014

	Notes	Charity 2014 £	Charity 2013 £	Group 2014 £	Group 2013 £
Non-current assets					
Tangible assets					
Heritage	11	16,074,766	16,025,266	16,074,766	16,025,266
Non heritage	11	481,430,241	474,743,154	481,531,985	474,817,732
Investment property	12	64,060,000	58,900,000	64,060,000	58,900,000
Investments	13	28,642,729	26,974,988	28,225,298	26,745,911
Debtors: falling due after one year	14	10,642,500	21,285,000	10,750,000	21,500,000
		600,850,236	597,928,408	600,642,049	597,988,909
Current assets					
Stock	15	–	–	134,025	156,419
Debtors: falling due after one year	16	11,282,196	7,818,372	11,485,601	7,732,537
Cash at bank and in hand	17	3,969,946	5,407,915	6,070,360	7,837,449
		15,252,142	13,226,287	17,689,986	15,726,405
Liabilities					
Creditors: amounts falling due within one year	18	(1,970,097)	(1,607,301)	(2,791,226)	(2,420,061)
Net current assets		13,282,045	11,618,986	14,898,760	13,306,344
Total assets less current liabilities		614,132,281	609,547,394	615,540,809	611,295,253
Creditors: amounts falling due after one year	19	(181,768)	(197,961)	(181,768)	(197,961)
Net assets excluding pension liability		613,950,513	609,349,433	615,359,041	611,097,292
Defined pension scheme liability	20	(390,000)	(414,000)	(390,000)	(414,000)
Net assets including pension liability		613,560,513	608,935,433	614,969,041	610,683,292
Funds					
Grant in Aid Fund	27	(3,073,316)	(1,672,055)	(3,073,316)	(1,672,055)
<i>Army Prize Money & Legacy Fund</i>					
Restricted Funds	27	25,695,000	38,339,854	25,695,000	38,339,854
Unrestricted Funds	27	268,921,413	255,410,218	268,921,413	255,410,218
Revaluation Reserve	27	322,017,416	316,857,416	322,017,416	316,857,416
<i>Gordon House (London) Limited</i>	27	–	–	(194,078)	(185,114)
<i>Royal Hospital Chelsea Appeal Ltd</i>					
Restricted	27	–	–	44,456	256
Unrestricted	27	–	–	1,558,150	1,932,717
Total funds		613,560,513	608,935,433	614,969,041	610,683,292

Signed on behalf of the Board of Commissioners on 21 October 2014 by

General Sir Redmond Watt KCB KCVO
CBE DL
Governor/Chairman

M Waterson Esq CBE
Deputy Chairman

A Gillibrand
Chair of the Audit Committee

Consolidated Cash Flow Statement for the year ended 31 March 2014

	Group 2014 £
Net cash (outflow) from operating activities (Note i)	230,556
Returns on investments and servicing of finance (Note ii)	1,143,256
Capital expenditure and capital investment (Note iii)	(2,230,214)
Management of liquid resources (Note iv)	(910,687)
Increase/(Decrease) in cash	(1,767,089)
Cash at the beginning of the year	7,837,449
Cash at the end of the year	6,070,360
Note i	
Reconciliation of operating profit to operating cash flows	
Net incoming/(outgoing) resources before transfers	(1,492,452)
Depreciation charges	6,265,962
Interest received	(26,363)
Interest paid	296
Dividends received	(1,117,189)
(Increase)/decrease in stock	22,394
(Increase)/decrease in debtors falling due within one year	(3,753,064)
Increase/(decrease) in creditors falling due within one year	371,165
Increase/(decrease) in creditors falling due within one year	(16,193)
Movement on defined pension scheme liability	(24,000)
	230,556
Note ii	
Returns on investments and servicing of finance	
Interest received	26,363
Interest paid	(296)
Dividends received	1,117,189
	1,143,256
Note iii	
Capital expenditure and capital investment	
Purchase of tangible fixed assets	(13,070,688)
Proceeds from sale of tangible fixed assets	8,771
Loss/(gain) on sale of fixed assets	81,703
Long term debtor (GH)	10,750,000
	(2,230,214)
Note iv	
Management of liquid resources	
Purchase of investments	(1,770,482)
Proceeds from sale of investments	859,795
	(910,687)

Notes to the Financial Statements

1 Accounting Policies

a Basis of accounting

The Financial Statements have been prepared in accordance with the Statement of Recommended Practice (SORP) 'Accounting and Reporting by Charities' issued in March 2005, and with applicable UK accounting standards. These Financial Statements have been drawn up on the historical cost accounting basis except for investment assets, heritage assets and certain operational assets for which the valuation method is described in the Tangible Fixed Assets section below.

The Financial Statements consolidate on a line by line basis all the Restricted and Unrestricted Funds of the Royal Hospital Chelsea 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.

b Going concern

The Board of Commissioners consider that the use of the going concern basis is appropriate because there are no material uncertainties related to events or conditions that may cast significant doubt the ability of the organisation to continue as a going concern.

c Incoming resources

Income is accounted for when receivable except for income from investments and donations which are accounted for when received or when the value can be reasonably ascertained whichever is earlier. Lease extension premiums and rental income are accrued when known with certainty.

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 Royal Hospital Chelsea'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 Royal Hospital Chelsea.

d Resources expended

Resources expended are accounted for on the accruals basis.

Direct expenditure (including irrecoverable VAT) is 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.

Governance costs comprise the costs of running the organisation including strategic planning for future development, external and internal audit, legal advice for the Commissioners and all the costs of complying with constitutional and statutory requirements such as the costs of Committee meetings, preparing statutory financial statements and satisfying public accountability.

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

e *Tangible fixed assets*

i **Freehold property:** is stated at valuation on a depreciated replacement cost basis (operational buildings) or market value (investment buildings). Valuations by independent professionally qualified valuers are obtained at five yearly intervals unless there is evidence of material change in the interim. The most recent revaluation of non-investment properties took place as at 31 March 2012 and the next full revaluation is planned for March 2017. New builds are capitalised at historic cost. 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.

ii **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

iii **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 identified such as Royal Hospital Chelsea paintings and artefacts and these are included as heritage assets in note 11. A revaluation will be due in 2016-17.

iv **Investment properties:** investment properties are shown at their open market value. Valuations by independent professionally qualified valuers are usually obtained at five yearly intervals unless there is evidence of material change in the interim. The most recent interim revaluation took place as at 31 March 2014 and the next full revaluation is planned for March 2017. No depreciation is charged on investment properties.

v **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.

vi **Impairment of assets:** under FRS 11: Impairment of Fixed Assets and Goodwill, tangible assets need to be reviewed for impairment only if there is some indication that impairment has occurred. In considering any potential impairment of tangible assets, particularly land and buildings, we carry out a high level assessment of the estate to identify if any key events or changes in circumstances give any indication of potential impairment. If there is no indication of impairment then no formal review is conducted. Correspondingly if there is any indication of impairment then a formal review is conducted and any impairment losses are written off to the SOFA.

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 Royal Hospital Chelsea's pension schemes are set out in Note 23. The pension costs charged to the SOFA represent the contributions payable to the Schemes on behalf of members of staff.

h Taxation

The Royal Hospital Chelsea 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 gift aids its taxable income to the Royal Hospital Chelsea and therefore incurs no liability for corporation tax.

Irrecoverable VAT is included in the SOFA with the item to which it relates. Chelsea Pensioners (RH) Ltd and Tricorne Traders were individually registered for VAT until 31 March 2014. As of 1 April 2014 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 allowance for obsolete and slow-moving stock.

2 Voluntary income

	Charity 2014	Charity 2013	Group 2014	Group 2013
	£	£	£	£
Legacies and donations	<u>2,700,680</u>	<u>2,521,400</u>	<u>1,115,992</u>	<u>1,402,994</u>

3 Activities for generating funds

	Charity 2014	Charity 2013	Group 2014	Group 2013
	£	£	£	£
RHC Appeal Limited	<u>–</u>	<u>–</u>	<u>2,650,904</u>	<u>2,718,149</u>

4 Investment income

	Charity 2014	Charity 2013	Group 2014	Group 2013
	£	£	£	£
Investment Income	1,114,234	591,897	1,117,189	592,086
Income from investment property	2,788,227	1,598,757	2,788,227	1,598,757
Bank and investment interest received	16,506	59,339	26,363	71,417
Total	<u>3,918,967</u>	<u>2,249,993</u>	<u>3,931,779</u>	<u>2,262,260</u>

The Royal Hospital Chelsea 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 Housing and Urban Development Act 1993, tenants were given the right to extend their leases by ninety 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. The amount of £2,788,227 (2013: £1,598,757) shown as income from investment properties includes £2,265,322 (2013: £1,364,398) paid to the Royal Hospital Chelsea in respect of lease extension premiums.

At the year-end £295,746 was accrued in respect of arrears rent (2008 – 2014) from Peabody Trust in respect of Chelsea Gardens and Wellington Buildings.

5 Income from charitable activities

	Charity 2014	Charity 2013	Group 2014	Group 2013
	£	£	£	£
Grant in Aid received from the Ministry of Defence	11,452,000	11,276,000	11,452,000	11,276,000

The use of the Grant in Aid funds received from the Ministry of Defence is governed by the Financial Framework which was reviewed during the financial year and updated on 4 August 2014. Grant in Aid may only be spent on revenue expenditure insofar as this does not include commercial trading expenditure which is borne by the trading subsidiaries directly.

6 Other incoming resources

	Charity 2014	Charity 2013	Group 2014	Group 2013
	£	£	£	£
Staff accommodation charges	214,207	201,170	214,207	201,170
Family practice	123,096	76,107	123,096	76,107
Food recoveries	31,106	21,532	31,106	21,532
Pension contributions (NHS)	110,326	115,006	110,326	115,006
In-Pensioner top-up fees	288,770	–	288,770	–
Other income	476,138	22,611	476,138	22,611
Total	1,243,643	436,426	1,243,643	436,426

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

The accounting treatment of In-Pensioner top-up fees (2013: £218,178) has changed from being treated as donations in prior years' accounts to other incoming resources this year. This is because these top-up fees are in fact payments for accommodation and care services provided by the Royal Hospital Chelsea and do not comply with the definition of a donation as a *'gift that will not provide any economic return to the donor other than the knowledge that someone will benefit from the donation'*

Other income in the year ended 31 March 2014 includes £450,000 in respect of a compensation payment from the developers of Chelsea Barracks (Qatari Diar) on the basis of 'Right-to-Light'. The contract was signed on 1 October 2013 and the funds were received shortly thereafter. This was included as a non-adjusting post balance sheet event in last year's statutory accounts.

7 Total resources expended

Group	Charitable activities						Totals	
	Cost of generating funds	Infirmity nursing and medical care	Welfare and ceremonial	Estate management	Governance costs	Support costs	2014	2013
	£	£	£	£	£	£	£	£
Costs of generating voluntary income	55,056	-	-	-	-	-	55,056	35,132
Fundraising trading	800,166	-	-	-	-	-	800,166	780,959
Investment management costs*	147,889	-	-	-	-	-	147,889	6,254
Staff costs	551,645	3,425,620	1,785,714	1,218,431	-	937,745	7,919,155	7,774,007
Other staff costs	-	30,221	12,160	14,336	-	142,114	198,831	169,622
Buildings and grounds maintenance costs	-	24,186	36	2,794,387	-	297	2,818,906	3,057,070
Information technology costs	-	-	-	-	-	124,426	124,426	119,690
In-pensioner living expenses	-	146,079	1,091,951	98,571	-	1,589	1,338,190	1,250,514
Catering costs	-	-	40,384	-	-	-	40,384	57,454
Council tax and rates	-	-	-	-	-	89,310	89,310	84,511
Security costs	-	-	-	-	-	763,520	763,520	750,427
Water, gas and electricity	-	-	-	-	-	591,792	591,792	516,531
Publicity and public relations	-	-	-	-	-	24,000	24,000	81,919
Insurance	-	-	-	-	-	236,188	236,188	242,361
Audit fees	-	-	-	-	93,456	-	93,456	120,311
Surveyor fees	25,411	-	-	-	-	-	25,411	11,685
Consultancy fees	-	17,001	-	53,803	-	47,400	118,204	987,416
Legal fees	-	-	1,450	-	36,765	-	38,215	38,172
Office expenses	-	-	-	-	296	174,363	174,659	195,485
Other expenses	-	-	7,459	848	-	14,743	23,050	17,204
Depreciation	450,608	1,486,714	2,842,014	644,106	-	842,520	6,265,962	6,753,495
Total before re-allocation of support costs	2,030,775	5,129,821	5,781,168	4,824,482	130,517	3,990,007	21,886,770	23,050,219
Re-allocation of support costs	92,327	1,294,943	1,258,985	1,303,852	39,900	(3,990,007)	-	-
Total expenditure	2,123,102	6,424,764	7,040,153	6,128,334	170,417	-	21,886,770	23,050,219

* In previous financial years both investment management fees and lease extension premium fees were netted off against income. However, from 1 April 2013 both of these types of fees have been grossed up.

8 Staff costs and numbers

	Charity	Charity	Group	Group
	2014	2013	2014	2013
	£	£	£	£
Salaries and wages	5,649,835	5,509,587	6,066,091	5,913,590
Social security costs	413,323	407,702	450,434	423,162
Pension costs	834,780	853,540	894,338	887,851
Sub-total	<u>6,897,938</u>	<u>6,770,829</u>	<u>7,410,863</u>	<u>7,224,603</u>
Casual and agency pay	423,340	461,354	423,340	461,354
In-pensioner pay	84,952	88,050	84,952	88,050
Total	<u>7,406,230</u>	<u>7,320,233</u>	<u>7,919,155</u>	<u>7,774,007</u>

The full-time equivalent members of staff by department were as follows:

	2014	2013
Infirmity nursing and medical	80	81
Welfare and ceremonial	11	11
Estates management	116	114
Finance and administration	12	11
Commercial services and fundraising	9	7
	<u>228</u>	<u>224</u>

Higher paid employees

The number of employees whose remuneration was over £60,000 in 2013-14 (excluding pension contributions) was as follows:

Band	2014	2013
£60,000 – £69,999	3	2
£70,000 – £79,999	2	1
£80,000 – £89,999	–	1
£90,000 – £99,999	1	–

Five (2013: three) of the above staff contribute to the PCSPS defined benefits scheme. Employer pension contributions for the above staff were £86,698 (2013: £53,851).

The salary and pension entitlements for the Governor and the Lieutenant Governor were in the following bands:

	Actual salary 2014	Actual salary 2013	Real increase in pension at 60 during the year	Total accrued pension at 60 at the year end	Cash equivalent transfer value at start date	Cash equivalent transfer value at end date	Real increase in cash equivalent transfer value
	£000	£000	£000	£000	£000	£000	£000
General Sir Redmond Watt – Governor	60–65	60–65	–	–	–	–	–
Major General APN Currie – Lieutenant Governor and Chief Executive	75–80	75–80	0–2.5	11–15	171	197	18

Commissioners' emoluments

None of the Commissioners received any remuneration for acting as Commissioners. Travel expenses of £810 (2013: £726) were claimed during the year by three (2013: three) Commissioners. The Governor and Lieutenant Governor are Commissioners and receive salaries in return for their work as executives of the Royal Hospital Chelsea. Former Governors and Lieutenant Governors receive pensions from an unfunded defined benefit scheme: these costs are included in note 23 – Unfunded Scheme. This scheme is closed to new members.

9 Governance costs

	Charity	Charity	Group	Group
	2014	2014	2013	2013
	£	£	£	£
Audit fees*	71,140	88,140	93,456	120,311
Consultancy fees	–	–	–	7,775
Legal fees	32,390	23,843	36,765	37,675
Bank charges	–	–	296	727
Support costs (see also Note 7)	39,900	12,662	39,900	12,662
	143,430	124,645	170,417	179,150

*£40,000 (2013: £40,000) relates to NAO audit fee charge for the year ended 31 March 2014.

10 Results of subsidiary companies:

The Royal Hospital Chelsea has two subsidiary companies and three sub-subsidiary companies. Their results are shown below.

i Royal Hospital Chelsea Appeal Ltd

The Charitable Company is limited by guarantee (company number 03701005) incorporated in England and Wales and is a registered charity (charity number 1076414). The Memorandum and Articles of Association dictate that the majority of the Board must be Commissioners of the Royal Hospital Chelsea and its primary object is to engage in activities "for the exclusive benefit of the Royal Hospital Chelsea" including fundraising.

The Charitable Company wholly owns two active trading subsidiaries being Chelsea Pensioner (RH) Ltd and Tricorne Traders Ltd. In 2011-12 it also acquired 100% of the shares in RHC Prime Minister Scholars Ltd which remained dormant during the year and therefore no account information is disclosed.

ii Chelsea Pensioner (RH) Ltd

The Company is limited by shares and is incorporated in England and Wales (company number 03853787). Its share capital is wholly owned by Royal Hospital Chelsea Appeal Ltd. It was formed in order to conduct non-charitable trading such as the Chelsea Flower Show and other events. The Company's taxable profits are transferred under corporate gift-aid arrangements to Royal Hospital Chelsea Appeal Ltd, and then ultimately to the Royal Hospital Chelsea.

iii Tricorne Traders Ltd

The Company is limited by shares and is incorporated in England and Wales (company number 07382655). It commenced trading in October 2010 and was formed following the transfer of the In-Pensioners Club to ensure that the commercial trading activities of the Facilities Management Department went through a VAT registered entity. The Company's taxable profits are transferred under corporate gift-aid arrangements to Royal Hospital Chelsea Appeal Ltd, and then ultimately to the Royal Hospital Chelsea.

iv RHC Prime Minister Scholars Ltd

This Company remained dormant during the year under review however potential business opportunities are still in discussion.

v Gordon House (London) Ltd

The Company was incorporated in April 2012 and is limited by shares (company number 08036299). The Company is a wholly owned subsidiary of the Royal Hospital Chelsea and all shares are held by the Commissioners.

The primary business of the Company was to assist the Commissioners of the Royal Hospital Chelsea with the sale of the lease of the property known as Gordon House, Tite Street, London, SW3 4SR, which it achieved in the prior year. The Company is not a commercial trading company. Its only business is to receive a 1% beneficial interest of the proceeds from the sale of the leasehold of Gordon House.

The Company's taxable profits (if any) are transferred under corporate gift-aid arrangements to the Royal Hospital Chelsea.

Royal Hospital Chelsea Appeal Limited

Consolidated Statement of Financial Activities for the year ended 31 March	Unrestricted	Restricted	Group	Group
	2014	2014	2014	2013
	£	£	£	£
Incoming resources				
Voluntary income	703,071	267,325	970,396	1,006,535
Activities for generating funds	2,650,904	–	2,650,904	2,718,149
Investment income	9,857	–	9,857	12,078
Total incoming resources	<u>3,363,832</u>	<u>267,325</u>	<u>3,631,157</u>	<u>3,736,762</u>
Resources expended				
Costs of generating voluntary income	168,980	–	168,980	118,992
Fundraising trading	1,214,798	–	1,214,798	1,150,873
Charitable activities	2,331,959	223,125	2,555,084	1,861,424
Governance	22,662	–	22,662	40,465
Total resources expended	<u>3,738,399</u>	<u>223,125</u>	<u>3,961,524</u>	<u>3,171,754</u>
Net (outgoing) / incoming resources	(374,567)	44,200	(330,367)	565,008
Balance at the beginning of the year	1,932,717	256	1,932,973	1,367,965
Balance at end of year	<u>1,558,150</u>	<u>44,456</u>	<u>1,602,606</u>	<u>1,932,973</u>

**Statement of Financial Activities – Charity only
for the year ended 31 March**

	Unrestricted	Restricted	Charity	Charity
	2014	2014	2014	2013
	£	£	£	£
Incoming resources				
Voluntary income	703,071	267,325	970,396	1,006,535
Activities for generating funds	1,399,526	–	1,399,526	1,561,660
Investment income	373	–	373	2,068
Total incoming resources	<u>2,102,970</u>	<u>267,325</u>	<u>2,370,295</u>	<u>2,570,263</u>
Resources expended				
Costs of generating voluntary income	168,980	–	168,980	118,992
Fundraising trading	–	–	–	–
Charitable activities	2,331,959	223,125	2,555,084	1,861,424
Governance	5,080	–	5,080	13,996
Total resources expended	<u>2,506,019</u>	<u>223,125</u>	<u>2,729,144</u>	<u>1,994,412</u>
Net incoming/(outgoing) resources	(403,049)	44,200	(358,849)	575,851
Balance at beginning of year	1,876,668	256	1,876,924	1,301,073
Balance at end of year	<u>1,473,619</u>	<u>44,456</u>	<u>1,518,075</u>	<u>1,876,924</u>

Expenditure shown under costs of generating voluntary income comprises of donations from Royal Hospital Chelsea Appeal Ltd to the Royal Hospital Chelsea. In the consolidated group accounts, expenditure is reduced by £2,555,084 (2013: £1,861,424) in respect of inter-company donations.

*Royal Hospital Chelsea Appeal Limited***Balance Sheets as at 31 March**

	Charity	Charity	Group	Group
	2014	2013	2014	2013
	£	£	£	£
Fixed assets				
Tangible fixed assets	2,100	2,100	101,744	74,577
Current assets				
Stock	–	–	134,024	156,419
Debtors: falling due within one year	1,423,546	1,587,089	112,869	157,628
Cash	106,118	299,692	2,087,711	2,404,131
Total current assets	<u>1,529,664</u>	<u>1,886,781</u>	<u>2,334,604</u>	<u>2,718,178</u>
Current liabilities				
Creditors: amounts falling due within one year	(13,689)	(11,957)	(833,742)	(859,782)
Net current assets	1,515,975	1,874,824	1,500,862	1,858,396
Net assets	<u>1,518,075</u>	<u>1,876,924</u>	<u>1,602,606</u>	<u>1,932,973</u>
Reserves				
Unrestricted funds	1,473,619	1,876,668	1,558,150	1,932,717
Restricted funds	44,456	256	44,456	256
Total Reserves	<u>1,518,075</u>	<u>1,876,924</u>	<u>1,602,606</u>	<u>1,932,973</u>

*Chelsea Pensioner (RH) Limited***Profit and Loss account for the year ending 31 March**

	2014	2013
	£	£
Turnover	2,166,683	2,315,868
Cost of sales	(101,599)	(87,674)
Gross profit	2,065,084	2,228,194
Administrative expenses	(834,167)	(817,440)
Other operating charges	(14,814)	(23,736)
Operating profit	1,216,103	1,387,018
Interest receivable and similar income	9,484	9,977
Loss on disposal of asset	(2,322)	
Qualifying donation under Gift Aid	(1,188,105)	(1,406,368)
Profit/(loss) on ordinary activities before and after taxation	35,160	(9,373)
Reserves brought forward	48,705	58,078
Reserves carried forward	83,865	48,705

Summary Balance Sheet as at 31 March

	2014	2013
	£	£
Fixed assets	95,226	60,317
Stock	127,357	153,863
Debtors: falling due within one year	82,351	123,137
Cash	1,775,556	1,925,887
Liabilities	(1,996,625)	(2,214,499)
Total reserves at the end of period	83,865	48,705

*Tricorne Traders Limited***Profit and Loss account for the year ending 31 March**

	2014	2013
	Total	Total
	£	£
Turnover	484,221	402,281
Cost of sales	(228,359)	(217,060)
Gross profit	255,862	185,221
Administrative expenses	(45,672)	(31,399)
Operating profit	210,190	153,822
Loss on disposal of fixed assets	(5,447)	–
Qualifying donation under Gift Aid	(211,421)	(155,292)
Loss on ordinary activities before and after taxation	(6,678)	(1,470)
Reserves brought forward	9,344	10,814
Reserves carried forward	2,666	9,344

Summary Balance Sheet as at 31 March

	2014	20132
	£	£
Fixed assets	6,518	14,261
Stock	6,668	2,556
Debtors: falling due within one year	23,281	14,048
Cash	206,037	178,552
Liabilities	(239,838)	(200,073)
Total reserves at the end of period	2,666	9,344

*Gordon House (London) Limited***Profit and Loss account for the year ending 31 March**

	2014	2013
	Total	Total
	£	£
Turnover	–	–
Cost of sales	–	–
Gross profit	–	–
Administrative expenses	(4,325)	(14,040)
Investment income	2,932	0
Bank interest receivable	23	189
Profit on sale of fixed assets	–	83,900
Realised gain on investments	760	–
Unrealised (loss)/gain on investments	(8,354)	8,354
Gift Aid donation to RHC	–	(263,517)
Loss on ordinary activities before and after taxation	(4,639)	(171,074)
Tax on profit on ordinary activities	–	–
Loss on ordinary activities after taxation	(8,964)	(185,114)

Profit and Loss account for the year ending 31 March	2014	2013
	Total	Total
Reserves brought forward	232,317	417,431
Reserves carried forward	223,353	232,317

Summary Balance Sheet as at 31 March	2014	2013
	£	£
Fixed assets	–	188,354
Debtors: falling due after one year	107,500	215,000
Debtors: falling due within one year	107,500	73,900
Cash	12,703	25,403
Liabilities	(4,350)	(270,340)
Total reserves at the end of period	223,353	232,317

11 Tangible fixed assets

Heritage and non heritage

	Assets in the course of construction	Land and buildings	Plant, machinery and equipment	Vehicles	Exhibits	Group Total
	£	£	£	£	£	£
Cost or valuation						
At 1 April 2013	5,079,559	473,724,161	3,780,473	195,940	15,785,266	498,565,399
Additions at cost	12,779,262	15,340	240,428	35,658	49,500	13,120,188
Reclassification	(11,378,324)	11,150,478	227,846	–	–	–
Disposals	–	(6,379)	(175,690)	(45,521)	–	(227,590)
At 31 March 2014	6,480,497	484,883,600	4,073,057	186,077	15,834,766	511,457,997
Depreciation						
At 1 April 2013	–	(6,442,558)	(1,196,520)	(83,323)	–	(7,722,401)
Depreciation charge for the year	–	(5,982,209)	(270,804)	(12,949)	–	(6,265,962)
Reclassification	–	–	–	–	–	–
Disposals	–	–	103,310	33,807	–	137,117
At 31 March 2014	–	(12,424,767)	(1,364,014)	(62,465)	–	(13,851,246)
Net book value						
At 1 April 2013	5,079,559	467,281,603	2,583,953	112,617	15,785,266	490,842,998
At 31 March 2014	6,480,497	472,458,833	2,709,043	123,612	15,834,766	497,606,751

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

Grant in Aid Fund	–	–	309,432	19,034	–	328,466
Army Prize Money and Legacy Fund	6,480,497	472,442,491	2,314,209	104,578	15,834,766	497,176,541
Subsidiaries	–	16,342	85,402	–	–	101,744
	6,480,497	472,458,833	2,709,043	123,612	15,834,766	497,606,751

Heritage

	Assets in the course of construction	Land and buildings	Plant, machinery and equipment	Vehicles	Exhibits	Group Total
	£	£	£	£	£	£
Cost or valuation						
At 1 April 2013	–	240,000	–	–	15,785,266	16,025,266
Additions at cost	–	–	–	–	49,500	49,500
Disposals	–	–	–	–	–	–
At 31 March 2014	–	240,000	–	–	15,834,766	16,074,766
Depreciation						
At 1 April 2013	–	–	–	–	–	–
Charge for the year	–	–	–	–	–	–
Disposals	–	–	–	–	–	–
At 31 March 2014	–	–	–	–	–	–
Net book value						
At 1 April 2013	–	240,000	–	–	15,785,266	16,025,266
At 31 March 2014	–	240,000	–	–	15,834,766	16,074,766

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

Grant in Aid Fund	–	–	–	–	–	–
Army Prize Money and Legacy Fund	–	240,000	–	–	15,834,766	16,074,766
Subsidiaries	–	–	–	–	–	–
	–	240,000	–	–	15,834,766	16,074,766

- i Following the definition of a heritage asset in FRS30 heritage assets contain only Royal Avenue and exhibits.
- ii Art and artefacts have been valued and are included as a heritage asset.

Non heritage

	Assets in the course of construction	Land and buildings	Plant, machinery and equipment	Vehicles	Exhibits	Group Total
	£	£	£	£	£	£
Cost or valuation						
At 1 April 2013	5,079,559	473,484,161	3,780,473	195,940	–	482,540,133
Additions at cost	12,779,262	15,340	240,428	35,658	–	13,070,689
Reclassification	(11,378,324)	11,150,478	227,846	–	–	–
Disposals	–	(6,379)	(175,690)	(45,521)	–	(227,590)
At 31 March 2014	6,480,497	484,643,600	4,073,057	186,077	–	495,383,231
Depreciation						
At 1 April 2013	–	(6,442,558)	(1,196,520)	(83,323)	–	(7,722,401)
Charge for the year	–	(5,982,209)	(270,804)	(12,949)	–	(6,265,962)
Disposals in year	–	–	103,310	33,807	–	137,117
At 31 March 2014	–	(12,424,767)	(1,364,014)	(62,465)	–	(13,851,246)
Net book value						
At 1 April 2013	5,079,559	467,041,603	2,583,953	112,617	–	474,817,732
At 31 March 2014	6,480,497	472,218,833	2,709,043	123,612	–	481,531,985

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

Grant in Aid Fund	–	–	309,432	19,034	–	328,466
Army Prize Money and Legacy Fund	6,480,497	472,202,491	2,314,209	104,578	–	481,101,775
Subsidiaries	–	16,342	85,402	–	–	101,744
	6,480,497	472,218,833	2,709,043	123,612	–	481,531,985

Operational Estate

Non-Heritage Assets

RHC undertakes quinquennial revaluations of the Royal Hospital Chelsea estate. The last revaluation was in March 2012, when Savills provided a valuation in accordance with RICS guidance on the following basis:

- a *The Depreciated Replacement Cost (DRC) of the Operational Estate.* The Operational Estate is defined as the land and buildings within the Estate which are necessary as part of the current use of the site. This includes all the historic buildings, the Margaret Thatcher Infirmary, offices, staff accommodation and ancillary buildings and structures.

Depreciated Replacement Cost is the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimisation.

- b *The National Army Museum* on Royal Hospital Road is let for a term of 999 years from 30 November 1967 at a fixed ground rent of £1.05 per annum. It was agreed to exclude this from the valuation.
- c The valuations exclude any value attributable to plant and machinery but include those items which provide essential services such as central heating, plumbing and wiring.
- d *Impairment assessment:* Under FRS 11 a review for impairment is only necessary if there is some indication that impairment has occurred. In considering any potential impairment of tangible assets, particularly land and buildings, we did not identify any key events or changes in circumstances that gave any indication of potential impairment. As part of our assessment we also considered whether there was any potential impairment due to the current Long Ward modernisation programme which essentially gives rise to a temporary functional obsolescence of that part of the operational estate. It is our opinion that there has been no impairment on the operational estate in 2013-14. Furthermore, the estate is valued at depreciated replacement cost which takes into account any physical deterioration or functional obsolescence.

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. Three new items were donated during the year and recorded at a market value of £49,500. The next revaluation will be in 2016-17.

- a The Royal Hospital Chelsea's heritage assets are principally composed of art and artefacts and it has a holding of 789 (2013: 786) such exhibits with a total value of £15,834,766 (2013: £15,785,266). 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 (2013: £15,733,316) and those held at cost total £51,950 (2013: £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 Royal Hospital Chelsea from the Kings Road and gives a view of the Royal Hospital Chelsea as intended by Sir Christopher Wren. It was valued by Savills as at 31 March 2012 with a market value of £240,000 (2013: £240,000). The revaluation of Royal Avenue took place as part of the quinquennial revaluation of the Royal Hospital Chelsea's estate.
- c The Royal Hospital Chelsea 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. In the year under review some exhibits (paintings etc) were generously donated and recorded at market value. Many of the exhibits are accessible to the public visiting the site either in guided parties or individually.

d A summary of heritage assets purchased at cost going back to the year before adoption of the standard is below:

Heritage asset purchase transactions	2014	2013	2012	2011	2010
	£	£	£	£	£
Altar Plate All Saints Chapel	-	-	-	-	64,660
Calligraphic Panel	-	-	-	-	7,600
Stained Glass Window	-	-	-	41,599	-
Paintings and medals	-	2,751	-	-	-
	<u>-</u>	<u>2,751</u>	<u>-</u>	<u>41,599</u>	<u>72,260</u>

e A summary of heritage assets acquired by donation going back to the year before adoption of the standard is below:

Heritage asset purchase transactions	2014	2013	2012	2011	2010
	£	£	£	£	£
Paintings	6,000	-	-	-	-
Silver Centrepiece	42,000	-	-	-	-
Regimental Plates	1,500	-	-	-	-
	<u>49,500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

In accordance with FRS 30 this disclosure is restricted to one year before the adoption of the standard.

12 Investment property

A full revaluation of the Investment estate was also undertaken by Savills in March 2012 as part of the quinquennial revaluation of the Royal Hospital Chelsea estate. Savills provided a valuation in accordance with RICS guidance on the following basis:

- a *The current Market Value of the Investment Estate.* The Investment Estate is defined as all the land and buildings that are currently let for investment purposes on long term leases or short term lettings and licences. The properties currently included as investment properties are as follows:
- i Chelsea Court
 - ii Embankment Gardens
 - iii Wellington Buildings and Chelsea Gardens
 - iv Gordon House
 - v Royal Avenue (see heritage assets in note 11)

During the year an interim revaluation of investment properties has taken place by Savills resulting in a revaluation gain of £5,160,000.

	2014	2013
	£	£
Balance at the start of the year	58,900,000	58,500,000
Additions: Gordon House from operational estate at net book value	-	4,296,687
Revaluation for the year	5,160,000	36,603,313
Disposals: Gordon House Leasehold	-	(40,500,000)
Freehold land and buildings at valuation	<u>64,060,000</u>	<u>58,900,000</u>

All investment properties belong to the Army Prize Money and Legacy Fund.

13 Listed investments

	Group 31 March 2014 £	Group 31 March 2013 £
Market value at 1 April 2013	26,745,911	11,522,551
Additions at cost	1,770,482	35,173,766
Cost of investments sold	(996,999)	(22,071,364)
Realised revaluation gain	24,581	–
Unrealised revaluation gain	681,323	2,120,958
Market value at 31 March 2014	<u>28,225,298</u>	<u>26,745,911</u>
Historical cost at the beginning of the year	23,520,269	10,417,867
Historical cost as at the end of the year	24,293,752	23,520,269

Investments are held in the Alpha Common Investment Fund, managed by Sarasin & Partners LLP. The investment objective of the Fund is to achieve long term capital and income growth. It is intended that this will be achieved by investment 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 related securities and units in hedge funds.

The increase in the value of the investments reflects the continued recovery of the markets and the active management of the investments. All investments belong to the Army Prize Money and Legacy Fund.

14 Debtors: amounts falling due after one year

	Charity 2014 £	Charity 2013 £	Group 2014 £	Group 2013 £
Gordon House debtor due after 1 year	<u>10,642,500</u>	<u>21,285,000</u>	<u>10,750,000</u>	<u>21,500,000</u>

The long term debtor represents the proportion of proceeds from the sale of the Gordon House lease that will be received in October 2015.

15 Stock

	Charity 2014 £	Charity 2013 £	Group 2014 £	Group 2013 £
Stock	<u>–</u>	<u>–</u>	<u>134,025</u>	<u>156,419</u>

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

16 Debtors: amounts falling due within one year

	Charity 2014 £	Charity 2013 £	Group 2014 £	Group 2013 £
Trade debtors	158,480	7,416	220,369	120,043
Prepayments and accrued income	444,352	154,929	493,549	191,160
Amounts due from subsidiary undertakings	16,963	311,714	–	–
Other debtors	19,901	28,213	21,683	31,334
Gordon House debtor due within 1 year	10,642,500	7,316,100	10,750,000	7,390,000
Total	11,282,196	7,818,372	11,485,601	7,732,537

The short term Gordon House debtor represents the proportion of proceeds from the sale of the Gordon House lease that will be received in October 2014.

At the year-end £295,746 was accrued in respect of arrears rent (2008 – 2014) from Peabody Trust in respect of Chelsea Gardens and Wellington Buildings.

17 Cash at bank and in hand

	Charity 2014 £	Charity 2013 £	Group 2014 £	Group 2013 £
Cash at bank	3,968,993	5,403,407	5,756,575	7,814,203
Cash in hand	953	4,508	313,785	23,246
Total	3,969,946	5,407,915	6,070,360	7,837,449

18 Creditors: amounts falling due within one year

	Charity 2014 £	Charity 2013 £	Group 2014 £	Group 2013 £
Trade creditors	1,061,434	1,027,736	1,099,286	1,061,862
Accruals and deferred income	190,861	135,736	862,207	838,847
Amounts due to subsidiary undertakings	–	6,133	–	–
Other creditors	717,802	437,696	829,733	519,352
Total	1,970,097	1,607,301	2,791,226	2,420,061

19 Creditors: amounts falling due after one year

	Charity 2014 £	Charity 2013 £	Group 2014 £	Group 2013 £
Chapel music foundation	95,394	82,955	95,394	82,955
Chapel fund	74,374	103,006	74,374	103,006
Advance funeral payments	12,000	12,000	12,000	12,000
Total	181,768	197,961	181,768	197,961

20 Pension liability

	Charity 2014 £	Charity 2013 £	Group 2014 £	Group 2013 £
Defined benefit pension liability	<u>390,000</u>	<u>414,000</u>	<u>390,000</u>	<u>414,000</u>

21 Contingent liabilities

There are no contingent liabilities.

22 Related party transactions

Any related party transactions between the Royal Hospital Chelsea and its subsidiary companies are covered under Note 10.

The register of interests for Commissioners and Management Board is updated annually at the end of the financial year. All related party transactions with Commissioners have been disclosed in Note 8 and in the Governance Statement on page 13.

23 Pensions

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

Principal Civil Service Pension Scheme (PCSPS)

Pension benefits for 183 (2013: 156) members of staff are provided through the Civil Service Pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a final salary scheme (Classic, Premium and Classic Plus) or a whole career scheme (Nuvos). These statutory schemes are unfunded, with the cost of benefits met by monies voted by Parliament each year. Pensions payable under Classic, Premium and Classic Plus and Nuvos are increased annually in line with Pensions Increase Legislation. Members joining from 1 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 1.5% and 6.25% of pensionable earnings for Classic and 3.5% and 8.25% for Premium, Classic Plus and Nuvos. Increases to employee contributions will apply from 1 April 2014. 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 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 their pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the members' earned pension is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is updated in line with Pension Increase Legislation. 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% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of three 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 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 and 65 for members of Nuvos.

The PCSPS is an unfunded multi-employer defined benefit scheme and it is not possible to separately identify RHC's share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2012. Details are in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk/pensions).

For 2014, employers' contributions of £670,770 were payable to the PCSPS (2013: £668,126) at one of four rates in the range of 16.7% to 24.3% of pensionable pay, based on salary bands. Employer contributions are to be reviewed every four years following a full scheme valuation by the Government Actuary. Rates will remain the same next year. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

No contributions were payable to stakeholder schemes in 2014.

NHS Pension Scheme (NHSPS)

The Royal Hospital Chelsea has 90 (2013: 66) members of staff in the NHS Pension Scheme which is an unfunded multi-employer defined benefit scheme, but the Royal Hospital Chelsea 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 Royal Hospital Chelsea is required to pay an employer's contribution, currently 14% of pensionable pay, as specified by the Secretary of State for Health. For 2014, employers' contributions of £222,707 were payable to the NHS Pension Scheme (2013: £218,213). 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 Royal Hospital Chelsea. 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 Royal Hospital Chelsea 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 14 (2013: 14) 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 £43,000 (2013: £41,000).

Financial Reporting Standard 17 (FRS17) – Retirement benefits

The latest FRS 17 valuation of the liabilities in respect of the unfunded pension entitlements was carried out as at 31 March 2014, by an independent qualified actuary, using the key FRS17 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	2014	2013
Price inflation/pension increase per annum	2.0%	2.2%
Discount rate per annum	3.5%	3.2%

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 (2013: 10 years).

The following table sets out as at 31 March 2014 the present value of the FRS 17 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.

	2014	2013	2012	2011	2010
	£	£	£	£	£
Defined pension scheme liability	<u>390,000</u>	<u>414,000</u>	<u>425,000</u>	<u>432,000</u>	<u>474,000</u>

The gross pension liability resides within the Royal Hospital Chelsea's unrestricted funds. Its only impact on the resources available for general application are, the annual payments to the pensioners of £43,000 for 2014 (2013: £41,000).

The gross pension liability under FRS 17 moved as follows during the year:

	Year to 31 March	
	2014	2013
	£	£
Gross pension liability at the beginning of the year	414,000	425,000
Pensions paid	(43,000)	(41,000)
Interest cost	13,000	17,000
Actuarial loss on defined benefit pension scheme	6,000	13,000
Gross pension liability at the end of the year	<u>390,000</u>	<u>414,000</u>

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

	Year to 31 March	
	2014	2013
	£	£
Interest on gross pension liability	<u>13,000</u>	<u>17,000</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 2014 is a loss of £6,000 (2013: loss of £13,000). The cumulative amount recognised in the 'gains and losses' categories of the SOFA since 2003 [as required by paragraph 94 of FRS 17] is a loss of £138,000 (2013: loss of £132,000).

The history of gains and losses due to experience on the liabilities is as follows:

	Balance sheet as at 31 March				
	2014	2013	2012	2011	2010
Experience gains/(losses) on liabilities	(20,000)	(12,000)	(3,000)	(4,000)	(4,000)
Percentage of the present value of liabilities	-5%	-3%	-1%	-1%	-1%

24 Operating leases

Rentals payable under operating leases are charged to the SOFA as incurred over the term of the lease. These leases are principally in respect of office equipment. In 2014 payments of £52,181 (2013: £60,789) were made in respect of operating leases.

At the year end, the Hospital had annual commitments under non-cancellable operating leases as follows:

	2014	2013
	Other	Other
	£	£
Within one year	510	27,120
In 2 to 5 years	29,325	8,635
Over 5 years	2,016	7,506

25 Capital commitments

	2014	2013
	£	£
Authorised and contracted	12,080,938	10,622,060

The sum for 2014 is predominantly for work on Phase III of the Long Ward project, committed to in 2011 and due for completion in late 2015. An element of this amount is also for lead roof repairs throughout the establishment, tendered and committed work for a project on the Prince of Wales Yard area of the Hospital, the project to refurbish the Great Hall, not yet tendered, ICT capital projects, purchase of new vehicles and MTI support services. Over the next five years capital commitments relating include the project on the South Terrace, a new Pavilion in Burton Court, the Soane Stable Yard refurbishment plus continuation of the roof refurbishment programme are expected to be in the region of £29,238,148.

26 Losses and write offs

There were no losses and write offs in the year ended 31 March 2014.

27 Movement in funds

The movement in funds for the year is broken down as follows:

	Balance as at 1 April 2013	Incoming resources	Resources expended	Total Gains / (losses)	Transfers	Inter- company transactions	Balance as at 31 March 2014
	£	£	£	£	£	£	£
Unrestricted Funds							
Grant in Aid	(1,672,055)	11,957,702	(13,316,908)	(42,055)	-	-	(3,073,316)
Army Prize Money and Legacy Fund							
General reserve	254,947,633	4,689,079	(7,054,617)	667,850	12,876,924	2,787,296	268,914,165
Ingram Trust	2,358	-	-	-	-	(2,358)	-
Drouly Trust	452,979	-	-	-	-	(452,979)	-
Ranelagh & de la Fontaine Trust Capital	7,248	-	-	-	-	-	7,248
Revaluation Reserve	316,857,416	-	-	5,160,000	-	-	322,017,416
Gordon House (London) Limited	(185,114)	2,955	(4,325)	(7,594)	-	-	(194,078)
RHC Appeal Group Ltd	1,932,717	3,363,832	(1,406,440)	-	-	(2,331,959)	1,558,150
Total unrestricted funds	572,343,182	20,013,568	(21,782,290)	5,778,201	12,876,924	-	589,229,585
Restricted Funds							
Army Prize Money and Legacy Fund							
Campbell Ward	27,041	-	-	-	-	500	27,541
Cadogan Donation	21,578	100,000	(92,143)	-	-	2,350	31,785
IP Trips/Tours	-	13,425	(12,337)	-	-	-	1,088
MTI Fund	-	-	-	-	(200,275)	200,275	-
Gordon House Fund	38,291,235	-	-	-	(12,676,649)	20,000	25,634,586
RHC Appeal Group Ltd	256	267,325	-	-	-	(223,125)	44,456
Total restricted funds	38,340,110	380,750	(104,480)	-	(12,876,924)	-	25,739,456
Total funds	610,683,292	20,394,318	(21,886,770)	5,778,201	-	-	614,969,041

28 Movement in funds continued

Unrestricted Funds

The general funds consist of the accumulated surplus or deficit on the SOFA. They are available for use at the discretion of the Commissioners in furtherance of the objectives of the Royal Hospital Chelsea. No surplus is allowed to accumulate within Grant in Aid in accordance with the Royal Hospital Chelsea's Financial Framework with the Ministry of Defence.

Restricted Funds

These funds are subject to specific restriction made by the donor, or in the case of the Gordon House Fund restrictions by the local authority.

Campbell Ward

The Campbell Ward fund represents donations raised through a special appeal run through trading subsidiary Royal Hospital Chelsea Appeal Ltd. The Campbell Ward was transformed into a specialist dementia care facility.

Cadogan Donation

The Cadogan Donation fund represents donations from the Cadogan Charity towards In-Pensioners' mobility and travel costs.

IP Trips / Tours

The IP Trips/Tours fund represents donations given specifically for In-Pensioner trips and tours that the Grant in Aid funding does not cover. This year this included funding to enable the In-Pensioners to participate in the Battlefield Tour.

MTI Fund

The MTI fund represents donations given specifically for spend on the Margaret Thatcher Infirmary.

Gordon House Fund

The Gordon House Fund represents the proceeds from the disposal of the Gordon House lease less expenditure to date. The lease was sold to generate income for capital projects such as the Long Ward modernisation programme which cannot be funded out of Grant in Aid. As defined by the S106 issued by the Royal Borough of Kensington & Chelsea the proceeds are restricted to the use of heritage capital expenditure and therefore prohibits the use of these funds for any day to day operational expenditure including routine repairs and maintenance costs. This also includes any restricted income received via the subsidiaries specifically for heritage capital projects such as the Long Wards refurbishment programme.

Transfers

Transfers out of the Army Prize Money and Legacy General Reserve Fund into the MTI Fund and Gordon House Fund represent spend from restricted reserves originally recognised in unrestricted reserves.

29 Derivatives and other Financial Instruments

FRS 25: Financial Instruments Presentation, and FRS 29: Financial Instruments Disclosure, require disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities.

The Royal Hospital Chelsea derives a significant proportion of its income from quoted investments. These are managed on our behalf by professional fund managers. A sub-committee of the Board of Commissioners is appointed to formulate the investment policy and to monitor its implementation, with the objective of safeguarding the Royal Hospital Chelsea's investment assets and of maximising total return from them.

In aggregate the performance of the fund managers is compared on a total return basis with the FTSE All- Share Index, the FTA Government All Stock Index, FTSE World ex UK £ Index and the Composite Index- Based Benchmark.

Interest Rate Risk

The Royal Hospital Chelsea has exposure to UK interest rate risk through its holding in bonds and cash balances.

Currency Risk

The Royal Hospital Chelsea has exposure to currency risk through its holding in global equities. All the holdings are hedged to sterling.

Market Price Risk

The Royal Hospital Chelsea has exposure to changes in market prices through its holding in UK and global equities and bonds and its investment properties which are valued at market value.

All of the above risks are managed by the fund managers in conjunction with agreed targets as described above.

30 Post balance sheet events

On 16 May 2014 the Commissioners of the Royal Hospital Chelsea signed a new agreement with the Royal Horticultural Society in respect of the Chelsea Flower Show. The lease is for a 10 year period and took effect from 1 July 2014.

These accounts have been authorised for issue by the Accounting Officer on the same date as the Comptroller and Auditor General's Audit Certificate.

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