

Royal Hospital Chelsea Account 2017-18

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Officers and Commissioners

Chairman of the Board of Commissioners

HM Paymaster General

Ex-officio Commissioners

HM Paymaster General – Rt Hon Matt Hancock MP (to 12 June 2017)

Rt Hon Mel Stride MP (from 13 June 2017)

Minister of State for the Armed Forces – Penny Mordaunt MP (to 12 June 2017)

Rt Hon Mark Lancaster TD VR MP (from 13 June 2017)

Minister for Defence Personnel, Welfare and Veterans – Rt Hon Mark Lancaster TD VR MP (to 12 June 2017)

Minister for Defence People and Veterans – Rt Hon Tobias Ellwood MP (from 13 June 2017)

Director Resources and Command and Secretary (Army) – David Stephens Esq CBE

Senior Health Advisor (Army) – Major General Paul Cain

Assistant Chief of the General Staff – Major General Nick Welch OBE (to 31 December 2017)

Major General Rupert Jones CBE (from 1 January 2018)

Governor, Royal Hospital Chelsea – General Sir Reddy Watt KCB KCVO CBE DL (retired 1 September 2018)

Specially Appointed Commissioners

Stuart Corbyn Esq (to 30 April 2017)

Justin Fenwick Esq QC (Deputy Chairman)(to 31 May 2017)

Rt Hon Lord Kakkar (to 30 September 2018)

David Rosier Esq (Deputy Chairman from 1 June 2017) (to 30 September 2018)

Mrs Angela Gillibrand

Dame Barbara Monroe DBE

Mark Gallagher Esq

Charles Lewington Esq OBE

Ms Jo Cleary

Dr Roger Bowdler

Colonel Paul Foster (from 1 May 2017)

Richard Clark Esq (from 1 June 2017)

Accounting Officer and Chief Executive Officer

Gary Lashko

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 London E14 4HD
Internal auditors	RSM Risk Assurance Services LLP The Pinnacle 170 Midsummer Boulevard Milton Keynes Buckinghamshire MK9 1BP
Legal advisers	Taylor Wessing 5 New Street Square London EC4A 3TW Boodle Hatfield 89 New Bond Street London W1S 1DA Wolters Kluwer 145 London Road Kingston upon Thames KT2 6SR
Investment manager	Sarasin & Partners LLP Juxon House 100 St. Paul's Churchyard London EC4M 8BU BlackRock Fund Managers Ltd 12 Throgmorton Avenue London EC2N 2DL
Chartered surveyor	Savills (UK) Limited 33 Margaret Street London W1G 0JD
Property maintenance	CBRE Managed Services Ltd 57 Southwark Street London SE1 1RU
Bankers	Barclays Bank plc 1 Churchill Place London E14 5HP Santander UK plc 2 Triton Square Regent's Place London NW1 3AN
Data Protection Officer	Tara Jay Clearcomm Devonshire House 60 Goswell Road, London EC1M 7AD

Annual Report of the Commissioners

Introduction

The Royal Hospital Chelsea (RHC) was founded by King Charles II in 1682 “as a place of refuge and shelter for such Land Soldiers as are or shall be old, lame or infirm in the service of the Crown”. Sir Christopher Wren was entrusted with the design of the building and it was ten years later, in the spring of 1692, that the first In-Pensioner (IP) 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 RHC and its Board.

Governing documents and charitable objectives

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

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

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

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

Income for the Army Prize Money and Legacy Fund arises from RHC’s commercial activities, including events staged in the buildings and grounds, and also from fundraising activity. The RHC has a fundraising programme which includes legacies, donations and applications to grant-making trusts. During the year there were a number of successful fundraising initiatives (see also p 7).

The RHC is staffed for 24-hours a day, 365 days of the year. There is always someone on hand to provide assistance for IPs if required. The RHC has 272 staff (2017: 275) of whom 102 (2017: 101) are medical, nursing and care staff.

Public benefit statement

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

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

outreach programme which works with other groups of veterans in need of support, including those who are in prison or homeless.

We have maintained our nationally important heritage building and artefacts to a high standard and made them available to nearly 7,000 people through tours, and visits by academics, tourists, and other visitors. We continue to develop our heritage offer by creating a digital archive of our records which will be made available to the public through a website. We have also started to work in a more structured way with local schools and have employed an Education Worker to ensure that pupils and teachers enjoy maximum educational benefit from our heritage. Our Chapel provides a place of worship and communion for almost 15,000 people each year, and we provide a site for both private and public commemorative events, particularly in support of Army veterans and Regimental Associations. Our major events support the local economy by bringing in significant additional income for local shops restaurants and businesses, who also provide employment opportunities.

We also provide office bases at reasonable rates for Charities engaged in veterans welfare, such as Combat Stress, Walking with the Wounded, and There but Not There.

In recent years the RHC has carried out a major programme of works to modernise the IPs' accommodation so that it remains fit for purpose in the 21st Century, and to restore and maintain the heritage buildings and grounds. The Long Wards have been remodelled and refurbished and other areas of the RHC, including the Great Hall and Chapel, have been restored. This work is now complete. The Soane Stable Block is the only building which has not yet been refurbished and this work is currently at the planning stage.

Monitoring of performance

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

Through careful resource management, maximising commercial income opportunities, and sound investment decisions, the Commissioners have delivered a second year of financial surplus. This enables the RHC to meet some of its future liabilities, protect itself against some financial risk such as rising inflation and upward pressure on salaries. This has also enabled the Commissioners to develop plans to meet the needs of future veterans; to re-invest in service development and improvements; and to consider increasing the RHC's impact by developing more outreach to other Army veterans.

The Commissioners regularly review corporate governance of the RHC with the aim of assessing and improving the effectiveness of the Board's performance overseeing the work of the RHC as a whole. A review in 2015 led to clarification and simplification of the corporate structure and new terms of reference for all sub-Committees of the Board. A further review was carried out by the Hospital's internal auditors, RSM Risk Assurance Services LLP, in 2017. This review made a number of further recommendations including revision of the Letters Patent, the adoption of a formal Scheme of Delegation and more systematic use of Key Performance Indicators (KPIs). These recommendations have been accepted and are being implemented.

Employees

Employees are kept informed of the performance and objectives of the RHC through its Staff Consultation Group, a monthly staff newsletter, regular weekly bulletins and briefings by line management. The CEO also produces a regular briefing on Executive Board business. Appropriate policies are in place to ensure the RHC complies with all applicable employment legislation and the Equality Act 2010. Full and fair consideration is given to all applicants for all job vacancies. The RHC has no staff who are formally designated as trade union officers under the Trade Union (Facility Time Publication Requirements).

Volunteers

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

Future Strategy

The RHC's high-level objectives – to provide care for the In-Pensioners and safeguard the heritage of the buildings and grounds – remain unchanged. The current vision and mission statement, adopted in 2016, reads:-

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

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

During the year the RHC adopted a new business plan which sets out the following key objectives:-

- Maintain and improve services to current In-Pensioners;
- Adapt services to meet emergent need, and prepare to meet the needs of future veterans;
- Ensure RHC has the resources to maintain the services and buildings at a high standard for the foreseeable future;
- Increase impact in the wider Veteran community as well as the local area;
- Strengthen links with the MoD, wider Army community, and related charities;
- Increase public recognition as an important part of the heritage, life, and success of London;
- Keep the Army veterans in the public eye, and maintain the Nation's respect, support, and affection.

The business plan is complemented by a 20-year financial plan, including a 25-year building maintenance and capital investment plan. The plan was initially approved by the Board of Commissioners in January 2017 and has subsequently been revised in the light of changes which have taken place since then. The plan suggests that the RHC will need to increase its income from non-MoD sources since increases in MoD grants are unlikely to keep pace with cost inflation in future. In order to achieve this the RHC is expanding its efforts to seek grants and donations and a Commissioner-led review of commercial activity is being undertaken with a view to increasing income in this area.

Review of achievements and performance for the year 2017-2018

Executive Summary 2017 – 18

The year covered by this review saw the completion of the new Business Plan, which was approved by the Board of Commissioners in July 2017. The overall aims of the Business Plan are to keep the RHC a much valued and loved national institution and to be able to provide appropriate care and support on the existing site for Army veterans, including veterans of Iraq and Afghanistan in 50 years' time. Major developments during the year are set out below.

i New procedures for IP admissions and contributions have been developed.

The new admissions policy assesses applicants on the basis of various criteria including army service, financial circumstances, physical and social needs and willingness and ability to participate in the life of the RHC. Applicants are interviewed by telephone and in person and are invited to spend four days at the RHC before a final decision on admission is taken. The new contribution system will lead to better-off pensioners contributing a larger share of costs but no IP will have an income below the current single person's old age pension and arrangements for existing IPs will not change. The new system came into effect on 1 April 2018.

ii A standard assessment of ability for all IPs has been introduced.

This assessment is designed to enable the RHC to offer all IPs the appropriate level of care and support and also to ensure that they are asked to participate in representational activity appropriate to their ability. Such activity can involve marching and/or other physical demands which some IPs will not be able to undertake.

iii An appeal for the purchase of new lightweight scarlet coats has been launched.

The distinctive scarlet coats worn by IPs since the foundation of the RHC can be too warm in Summer weather and in late 2017 an appeal to fund the design and manufacture of a lightweight alternative was launched. By the year-end this appeal had raised almost £92k and the RHC is working with its clothing suppliers on the provision of the coats.

iv The 70th Wedding Anniversary of HM the Queen and HRH the Duke of Edinburgh

The anniversary was marked with a televised event in the Great Hall featuring a replica of the cake made for the wedding ceremony in 1947.

v Funds have been raised to provide a wireless pendant system for all IPs.

The pendants are designed to be worn around the neck and connect wirelessly to a central control point. The system can detect if an IP falls over and it can also be used by an IP to call for assistance manually. The RHC has been awarded grants from the City Bridge Trust and the Armed Forces Benevolent Fund to pay the costs of purchasing and installing the system.

vi A third major event, Global Champions Showjumping, was held in the South Grounds.

This event is expected to become a regular in the RHC calendar to add to the RHS Chelsea Flower Show and Masterpiece. The income arising helps cover the costs of the RHC's operations which are not met from the MoD Grant in Aid.

vii A new logo and corporate identity was developed.

The logo, in the form of a shield, is based on the iconic scarlet coat and tricorne hat worn by IPs over the centuries. It is designed to complement the existing heraldic logo and is intended for use in electronic media, smartphones and so on. The new logo encapsulates "Chelsea Pensioners" which is more familiar brand to many people than the more formal "Royal Hospital Chelsea."

viii A new suite of Key Performance Indicators has been developed and agreed with the MoD.

These indicators will be reported to each meeting of the Board of Commissioners. More detailed indicators are prepared for internal uses.

ix The RHC has reported on its gender pay gap for the first time.

The mean gender pay gap at 31 March 2017 was 16.2% and the median gap was 5.8%.

x Surveys of both IPs and staff were carried out during the year.

The surveys gave an insight into the thinking of residents and staff of the RHC and action is being taken to address the issues raised. IP satisfaction rates with RHC services are generally high. Staff mostly found the RHC a good place to work though there were concerns about internal communication and also pay scales. Improving the satisfaction of both IPs and staff form a key management target in future and action has been taken to tackle to main issues raised in the surveys. A new pay consultant has been appointed and the recommendations of their report were implemented in full in August 2017. In order to improve communication a detailed audit of communication channels and procedures has been commissioned from an external consultant.

xi The RHC prepared for the introduction of the General Data Protection Regulation (GDPR) in May 2018.

Steps have been taken to ensure that all RHC systems are compliant in their use of personal data.

xii A new policy for the provision of on-site accommodation to staff has been developed and implemented.

xiii A space usage strategy is being drawn up in order to inform future development of the RHC's estate.

Financial review and results for the year

The total funding received from the Ministry of Defence was £12,113.000 (2017: £11,994.000). Income from other sources, including fundraising activities, investments and donations was £10,113K. (2017: £8,884.000). Total income was £22,226.000 an increase of some £1,348.000 (6%) on 2017. Costs attributable to RHC's charitable activities were £17,025.000 (2017: £16,540.000), an increase of £485.000 (3%). Other costs were £2,056.000, (2017 £2,019.000), an increase of £37.000 (2%).

Net income, after movements on investments, was £6,804.000 (2017: £10,197.000). Taking into account other gains and losses total funds increased from £276,531.000 in 2017 to £286,276.000 this year (see below & notes 1 & 26).

Total funds donated through the Royal RHC Chelsea Appeal Ltd Group amounted to £4,261.000 (2017: £3,710.000). Trading results of the subsidiaries are discussed below and further details are contained in note 10 to the accounts.

Valuation

The RHC's operational estate was revalued at 31 March 2016 by Savills, Chartered Surveyors. The surveyors advised that a "modern equivalent" valuation was the most appropriate basis for valuing most of the land and buildings. This is because the unique and historic nature of the RHC's estate means that a meaningful market value cannot be arrived at. Therefore it is appropriate to use the cost of building a "modern equivalent" and not the cost of replacing the existing historic buildings when valuing the assets for accounts purposes. This applies to all the RHC's operational land and buildings apart from the Margaret Thatcher Infirmary, which, as a modern purpose-built care home, is valued at market value (see also Note 1e to the accounts).

The values were reviewed at 31 March 2018 based on informal advice received from chartered surveyors. The "modern equivalent" value of the operational estate was increased by 4%, representing the increase in building costs during the year. This resulted in an increase of £2,902.000 in the value of the operational estate. The market-based valuation for the MTI was not increased as market values for care home facilities have not changed significantly during the year. The values of the RHC's investment properties have been increased by 5% to reflect the fact that the long leases granted on them are now one year closer to reversion. Additionally the value of Chelsea Court has been raised to £8.5million as a new 200-year lease to the Peabody Trust, the current leaseholder, had been agreed at 31 March 2018 but had not been completed at the year-end. These factors resulted in an increase of £5,296.000 in the value of the investment estate (note 12).

Trading subsidiaries

Royal Hospital Chelsea Appeal Ltd Group

The RHC Appeal Group consists of a holding company and two subsidiaries. The holding company, which is also a registered charity, is RHC Appeal Ltd. The two subsidiaries are Tricorne Traders Ltd, which is now dormant, and Chelsea Pensioner (Royal Hospital) Ltd (CPRH). CPRH donates its profits to the parent company, which in turn makes donations to the RHC. At the end of the year Royal Hospital Chelsea Appeal Ltd Group held reserves of £4,175.000 (2017: £3,558.000) of which £417,000 (2017: £198,000) was restricted. During the year the subsidiary donated a total of £4,261.000 (2017: £3,710.000) to the RHC.

Gordon House (London) Ltd

Gordon House (London) Ltd was incorporated in 2012-13 in order to assist the Commissioners of the RHC with the sale of the lease of the property known as Gordon House, which was achieved in 2012-13. The subsidiary made a small profit in 2017-18 but has not gift-aided any of its income for the year to its parent undertaking the RHC as the profit has been set against losses made in previous years. Under the terms of a S106 planning agreement with the Royal Borough of Kensington & Chelsea the proceeds of the sale have to be used for heritage capital works and RBKC has confirmed that this condition has been complied with.

Pension liability

Although most of the employees of the RHC are members of the Principal Civil Service Pension Scheme, some former Governors, Lieutenant Governors and Captains of Invalids are members of an unfunded defined benefit scheme which is paid out of current income. The scheme has 10 retired members (or their widows), and was closed to new entrants some years ago. The scheme is a final salary scheme with benefits based on number of years' service and final salary. Under Financial Reporting Standard (FRS)17: Retirement Benefits, there is a pension liability of £266k (2017: £334K) attributable to the Grant in Aid fund (see note 22).

Reserves policy

The reserves in the RHC's Balance Sheet consist of its operational land and buildings, investment property, other investments and surpluses generated through fundraising and trading. Most of these reserves are not liquid. The operational land and buildings are used for business purposes. The RHC holds the other reserves so that it can maintain its services to In-Pensioners and continue to protect the heritage of the Wren buildings and grounds in the event of an unforeseen loss of income. Reserves are also required to fund capital investment, since the Grant in Aid received from the MoD does not cover capital works.

The RHC's reserves policy is as follows:

General Reserves

- The reserves represented by the operational land and buildings are used for the RHC's operations and as such are unlikely to be realisable. Maintaining the heritage site on behalf of current and future In-Pensioners and the nation is a fundamental part of the RHC's mission;
- The RHC's long term investments, including the off-site investment property which is not used for operational purposes, shall be managed in accordance with guidelines set out by the Investment and Estates Committees and approved by the Board of Commissioners. The aim will be to generate the maximum value in the long term consistent with a low level of risk to capital;
- The RHC aims to hold unrestricted liquid reserves (cash, cash equivalents and securities traded on a recognised financial market) equivalent to two years unrestricted running costs or four years Grant in Aid funding from the MoD, whichever is the greater.
- The RHC aims to hold free cash reserves (cash and cash equivalents) covering at least six months' unrestricted current expenditure; this is designed to guard against any unforeseen loss of income or unexpected demands on resources which might arise.
- The RHC will aim to maximise the value of its investment property; while there is no current intention to dispose of any property it is recognised that the RHC may be compelled to do so in certain circumstances. There is no current intention to acquire new investment property. We will aim to maximise income from the property and opportunities to increase income as leases fall due for renewal will be carefully considered.

Restricted Reserves

- Restricted reserves will be dealt with in accordance with the wishes of the donors. If moneys held as restricted reserves are not immediately required they may be invested in liquid assets (defined as cash or securities traded on a recognised financial market) along with the RHC's unrestricted investments. Restricted reserves may not be invested in property or other illiquid assets.

Designated Reserves

- The Board of Commissioners may designate reserves for specific purposes from time to time. Designated reserves will normally remain invested in the same way as General Reserves until they are required for the designated purpose but the BoC may vary this if circumstances require.
- A designated reserve shall be created for building repairs to ensure that the RHC is able to fund the programme of works set out in the 20-year maintenance plan.

At 31 March 2018 the RHC held cash reserves of £6,801.000 (2017: £7,125.000), which represents approximately five months' unrestricted running costs (excluding depreciation). Liquid reserves (cash and traded investments) were £49,483.000 (2017: £47,432.000), which represents 4.1 years' GiA funding and 2.8 years' unrestricted running costs (excluding depreciation).

Investment policy

The Board of Commissioners has set an investment policy with the objective of providing capital growth in real terms over the longer term. During 2017-18 all the RHC's investments were managed by Sarasin & Partners LLP and the bulk of the funds were held in Sarasin's Alpha Common Investment Fund for Endowments.

In February 2018 a competitive exercise was held for the RHC's investment management services and as a result it was decided to invest £10 million of the funds in the Armed Forces Common Investment Fund managed by BlackRock Fund Managers Ltd. The remaining investments will continue to be managed by Sarasin & Partners LLP. The transfer of funds to Blackrock took place after the 2017-18 year end.

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

- **Army Prize Money and Legacy Fund:** To achieve capital growth over the longer term with a medium level of risk. Dividend income will be re-invested.
- **Gordon House Fund:** To be invested on a short term basis to maximise income with limited capital risk. This Fund will hold monies that will be required for capital investment in the short to medium term.

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

Tangible fixed assets

The RHC's operational land and buildings were revalued at 31 March 2016. The valuer, Savills, advised that the unique nature of the RHC's activity and the planning restrictions preventing any alternative use for its facilities meant that a market valuation could not be ascertained for the site and the heritage buildings. However, in the case of the MTI, a modern care home facility, a market value could be ascertained. Accordingly the site and the heritage buildings were valued on the basis of a "modern equivalent facility" which means that the valuer estimated the current cost of acquiring sufficient land and buildings required to provide 200 In-pensioner berths and the communal facilities currently provided by the RHC (dining hall, chapel etc). The MTI was valued on the basis of a market value arrived recommended by the valuer as the amount that could be expected to be received should the building be offered for sale on the open market.

The values were reviewed by the RHC at 31 March 2018 and as a result the "modern equivalent" value of the operational properties was increased by £2,902k reflecting the increase in rebuilding costs over the year. The value of the MTI (which is valued at market value) was not changed as there has been little movement in the market during the year.

Investment property was also revalued by Savills at 31 March 2016, and these values were also reviewed by the RHC during the year. As a result investment property was valued at £95,996.000 (2017: £93,222.000) at the year-end. Market values of property in Chelsea have not changed greatly but an increase in value arises because the long leases on which most investment properties are let are now one year closer to reversion.

Heritage Assets and exhibits were revalued in 2016-17 by Gurr Johns. The current value of Heritage Assets, including land and exhibits is £18,437,000 (2017: £18,437,000).

Plant machinery and equipment has a net book value of £2,151,000 (2017: £2,334,000) and vehicles have a net book value of £146K (2017: £157,000).

Audit arrangements

The consolidated accounts of the RHC were audited by the Comptroller and Auditor General in accordance with the Chelsea Hospital Act 1876. An audit fee of £47,000 (2017: £56,000) has been charged for the group audit and is included in Governance costs. The 2017 figure includes an additional charge of £6,000 for 2015-16 which was not accrued in that year. No non-audit work was carried out by the auditor in 2017-18. The cost of the audit of RHC's subsidiary companies was £15,000 (2017 : £15,000).

At the time of approving the Financial Statements, so far as the Commissioners and Accounting Officer are aware, there is no relevant audit information of which the auditors are unaware; and the Commissioners and Accounting Officer have taken all appropriate steps to make themselves aware of any relevant audit information and to establish that the external auditors are aware of that information.

Accounting Officer

The RHC's CEO and Accounting Officer, who served throughout the 2017-18 financial year, is Mr Gary Lashko.

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

30 October 2018

Governance Statement

Governance Framework

Governing Documents

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

Grant in Aid Framework Document

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

The Financial Framework applicable to the 2017-18 financial year was revised on 21 October 2014. A new Framework document was presented to the Board of Commissioners in April 2018; this will apply for the next three years. The Chief Executive Officer of the RHC is the Accounting Officer. Mr Gary Lashko has held this post since 1 February 2016.

Charity Accounting and reporting responsibilities

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

In preparing the accounts the Charity is required to:

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

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

Register of Interests

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

Organisational Structure, governance and decision-making

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

The Chief Executive Officer (CEO) is responsible to the Governor and Board of Commissioners for the effective and efficient management of the RHC, for the delivery and implementation of strategy set by the Board of Commissioners and for ensuring that the RHC complies with all relevant statutory requirements. He reports directly to the Governor and is head of the RHC management structure. Responsibility for day to day operations and the development of policy for the approval of the Board of Commissioners lies with the Executive 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 Senior Health Advisor (Army), and the Director Resources and Command Secretary (Army) who acts as the conduit through which the Grant in Aid is paid to the RHC and provides expert oversight. There are also three Ministers who for historic reasons are ex-officio Commissioners. While these Ministers do not play an active part in the governance or strategic management of the organisation, they visit for briefing, are made aware of major issues and receive copies of appropriate correspondence, including Board minutes.

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

General Sir Reddy Watt KCB KCVO CBE DL retired from the Governorship on 1 September 2018 and was succeeded by General Sir Adrian Bradshaw KCB OBE.

Board of Commissioners governance

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

The Board of Commissioners met four times during the year. The Governor and Chief Executive Officer are always present and there is invariably a substantial majority of the remainder (excluding Ministers, who do not attend). At each meeting the Board considers a comprehensive report from the Chief Executive Officer covering all aspects of the RHC's business, both reporting on what has transpired since the previous meeting and flagging up future plans and emerging issues. The Board is then able to give guidance and direction on these matters. Individual members of the Board also regularly hold meetings with the executive on matters within their particular areas of competence. The Board also receives minutes and other reports from its committees.

Board Committees

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

Audit Committee

The Audit Committee is made up of the following Commissioners:

Mrs Angela Gillibrand (Chair)
 Stuart Corbyn Esq (to 30 April 2017)
 David Rosier Esq (to 31 May 2017)
 David Stephens Esq CBE - Director Resources and Command Secretary (Army)
 Colonel Paul Foster (appointed 1 May 2017)
 Richard Clark Esq (appointed 1 June 2017)

The Audit Committee met twice during the year to consider financial management and reporting, the high level risk register and the reports of the RHC's auditors.

Nominations Committee

The Nominations Committee is made up of the following Commissioners:

Justin Fenwick QC (Chair) (to 31 May 2017)
 David Rosier Esq (Chair – from 1 June 2017)
 David Stephens Esq CBE - Director Resources and Command and Secretary (Army)
 Mrs Angela Gillibrand

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

In the year under review two new Specially Appointed Commissioners joined the Board, having been appointed in the previous year. These appointments replaced two Commissioners who completed their terms of office in April and May 2017. In early 2018 the Committee considered the appointment of a new Governor to replace Gen Sir Reddy Watt KCB KCVO CBE DL who retires on 1st September 2018. Gen Sir Adrian Bradshaw KCB OBE was appointed and he took up the post on 3rd September 2018. Each new Commissioner completes a programme of induction on appointment and is thereafter provided with relevant information and support.

Remuneration Committee

The Remuneration Committee is made up of the following Commissioners:

David Stephens Esq CBE - Director Resources and Command and Secretary (Army)
 Justin Fenwick Esq QC (Chair) (to 31 May 2017)
 David Rosier Esq (Chair – from 1 June 2017)
 Dame Barbara Monroe DBE

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

Investment Committee

The Investment Committee is made up of the following Commissioners:

David Rosier Esq (Chair)
Rt Hon Lord Kakkar (to 31 May 2017)
Charles Lewington Esq OBE
Richard Clark Esq (from 1 June 2017)

The Investment Committee met twice during the year under review. In that time they conducted a review of the RHC's investment management arrangements and performance of Sarasin & Partners LLP and also appointed BlackRock Fund Managers Ltd to manage some of the RHC's funds (see also p10).

Health and Wellbeing Oversight Committee

The Health and Wellbeing Oversight Committee is made up of the following Commissioners:

Dame B Monroe DBE (Chair)
Mark Gallagher Esq
Ms Jo Cleary
Major General Paul Cain

The Health and Wellbeing Oversight Committee met four times during the year under review. In addition to monitoring performance and risk, and providing advice to the executive, the Committee noted in particular the "outstanding" rating awarded to the MTI following the CQC inspection.

Estates Committee

The Estates Committee is made up of the following Commissioners:

Stuart Corbyn Esq (Chair) (to 30 April 2017)
Colonel Paul Foster (Chair – from 1 May 2017)
Charles Lewington Esq OBE
Ms Jo Cleary
Dr Roger Bowdler

The Estates Committee met four times during the year under review. It considers issues relating to the management of the buildings and grounds, with a particular focus on plans for future maintenance now that the refurbishment of the Long Wards has been completed. The RHC has prepared a 25-year maintenance plan designed to ensure that the buildings are maintained in a good condition for the foreseeable future. The Estates Committee is responsible for making recommendations to the Board for capital projects and these are subject to approval by the Board following tendering estimates.

Executive Board

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

Chief Executive - Gary Lashko

Quartermaster (Director of Facilities) – Lieutenant Colonel Andy Hickling MBE MBIFM (to 23 December 2017)

– Lieutenant Colonel Nicky Mott MBE (from 22 January 2018)

Director of Health and Wellbeing – Professor Deborah Sturdy OBE

Finance Director - Nick Cattermole ACMA

HR Director – Celia Kowalkowski MCIPD (retired 31 July 2018)

Fundraising and Communications Director – Martin Field

The Executive 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 Executive 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 three active and two dormant subsidiary companies which have been established to manage charitable and trading activities. These subsidiaries are incorporated under the Companies Act 2006 and report accounts in accordance with the Companies Act and UK GAAP. The companies are as follows:

Royal Hospital Chelsea Appeal Ltd Group

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

This Charitable Company has three wholly owned commercial trading subsidiaries being Chelsea Pensioner (RH) Ltd (company number 03853787), Tricorne Traders Ltd (company number 07382655) and RHC Prime Minister Scholars Ltd (company number 07509639); the latter two are currently dormant companies. Chelsea Pensioner (RH) Ltd is the trading arm responsible primarily for the management of the Souvenir Shop, events, the Chelsea Pensioner Club, MTI Café and also provides catering and staff for functions.

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

Gordon House (London) Ltd

Gordon House (London) Ltd was incorporated in 2012. The primary business of the Company is to assist the Commissioners of the RHC with the sale of the lease of the property known as Gordon House, which was achieved in 2012-13. The Company is a wholly owned subsidiary of the RHC and the Commissioners form a majority of the directors on the Board. This subsidiary also gift aids its taxable income to its parent undertaking the RHC (through the Army Prize Money and Legacy Fund).

Review of effectiveness of internal control

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

External audits

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

Internal audits

In addition to the two external auditors, the RHC is also subject to regular internal audits to standards defined in the Government Internal Audit Manual. The internal auditors in 2017-18 were RSM Risk Assurance Services LLP. RSM produced five reports during the year – these covered Facilities Management, HR, Incident Management, Treasury Management and Follow Up of previous audit work. All reports, apart from Facilities Management, showed a reasonable level of assurance. Facilities Management showed partial; assurance; action is being taken by the new Director of Facilities and Quartermaster to rectify the issues highlighted in the report. The RHC is also audited from time to time by the Defence Internal Audit (DIA) on the use of the Grant in Aid funds.

Fraud prevention and detection

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

Risk control framework

Risk appetite

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

Key risks and controls

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

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

a Financial

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

b Internal Communications with staff and IPs

This risk was highlighted by the surveys of staff and IPs that were undertaken during the year. Further work is being done on this including a communications audit by an independent consultant and a programme of meetings and consultations.

c Recruitment of new IPs

Recruitment activity was suspended during 2015-16 because the refurbishment works in the Long Wards meant that some accommodation was unavailable and capacity was temporarily reduced. As a result the RHC does not have a waiting list of prospective IPs and a higher than usual number of deaths in late 2017 led to a drop in numbers in residence below the target range of 290-310. This is being addressed through the new IP admission procedure.

d Physical Security and Cyber Security

The Hospital is a high-profile national institution which is open to the public. We also hold external events which attract thousands of visitors every year. This inevitably brings risks to security, which are managed by close liaison with the police and security services. Cyber security is maintained using the latest technological solutions and the Hospital's IT department regularly updates systems and software to ensure the best possible level of protection.

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

Factors outside the control of the RHC

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

- A change in national attitudes towards the armed services which might undermine public (and thus political) support for the institution (and so affect the Grant in Aid).
- The Ministry of Defence reducing the grant in aid in real terms as a budgetary measure. This is the principal reason why the Commissioners are intent on moving progressively towards establishing greater financial self-sufficiency.
- Competition from other military charities. There are a number of other charities which support veterans and competition for funds is likely to increase. This has the potential to affect fundraising.
- The number of veterans is declining as the generations who were conscripted during and after the second world war die out and this may impact on recruitment. Many veterans of recent conflicts need levels of

support (eg mental health and/or multiple physical disabilities) which, at the moment, the RHC would not be able to meet.

- The introduction of future legislation which might increase the cost base, for example by creating more demanding care regulations requiring additional staff.
- Economic uncertainties which may arise from the Brexit process, or from other causes, would compound the first three factors listed above.

Review of effectiveness of the Board

The Commissioners and Accounting Officer have responsibility for maintaining the effectiveness of the RHC's governance. The Board of Commissioners intends, in accordance with its governance overview document, to have a specific review of its own work and performance every three years. The last such review was in 2017.

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

The Board believes that it has achieved strategic clarity in its work, is focused on results and has been provided with sound management information which has allowed it to act in a well-founded and commercial way in respect of its various business opportunities over the financial year. In particular the Board has been provided with a substantial amount of financial information and has been able to rely on the data provided to it. The Board is satisfied that it has acted at all time within the terms of the Financial Framework between the RHC and the Ministry of Defence in respect of Grant in Aid and in accordance with the Letters Patent and other appropriate laws and regulations that apply to the RHC's activities

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

30 October 2018

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

Opinion on financial statements

I have audited the financial statements of Royal Hospital Chelsea for the year ended 31 March 2018 under the Chelsea Hospital Act 1876. The financial statements comprise: the Consolidated and Charity Statements of Financial Activities, the Consolidated and Charity Balance Sheets, the Consolidated Statement of Cash Flows and the related notes, including the significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Generally Accepted Accounting Practice as adopted by the European Union.

In my opinion:

- the financial statements give a true and fair view of the state of the group's and of Royal Hospital Chelsea's affairs as at 31 March 2018 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 directions issued thereunder.

Opinion on regularity

In my opinion, in all material respects the income and expenditure 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.

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the Royal Hospital Chelsea and group in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the Commissioners and Accounting Officer

As explained more fully in the Governance Statement, 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.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit and report on the financial statements in accordance with the Chelsea Hospital Act 1876.

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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's and the Royal Hospital Chelsea's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's and the Royal Hospital Chelsea's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

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

Other Information

The Commissioners and Accounting Officer are responsible for the other information. The other information comprises information included in the Annual Report of the Commissioners, other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinion on other matters

In my opinion:

- in the light of the knowledge and understanding of the group and the Royal Hospital Chelsea and its environment obtained in the course of the audit, I have not identified any material misstatements in the Annual Report of the Commissioners, Review of Achievements and Performance for the Year 2017-18, and the Financial Review and Results for the year; and
- the information given in the Annual Report of the Commissioners, Review of Achievements and Performance for the Year 2017-18, and the Financial Review and Results for the year which I provide a positive consistency opinion on 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;
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse
Comptroller and Auditor General

8 November 2018

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

Consolidated Group Statement of Financial Activities for the year ended 31 March 2018

		Unrestricted 2018	Restricted 2018	Total 2018	Total 2017
	Notes	£000	£000	£000	£000
Income and endowments from:					
Voluntary income – donations and legacies	2	968	367	1,335	1,158
Charitable activities – MOD Grant in Aid	5	12,113	–	12,113	11,994
Other trading activities – events and fundraising	3	4,261	–	4,261	3,710
Investment income	4	3,403	–	3,403	2,568
Other income	6	1,114	–	1,114	1,448
Total Income and Endowments		<u>21,859</u>	<u>367</u>	<u>22,226</u>	<u>20,878</u>
Expenditure on:					
Raising funds	7	1,707	148	1,855	1,850
Charitable activities					
Infirmity nursing and medical	7	6,840	–	6,840	6,675
Welfare and ceremonial	7	2,506	–	2,506	2,332
Facilities management	7	7,679	–	7,679	7,533
Other activities- investment management costs	7	201	–	201	169
Total Expenditure		<u>18,933</u>	<u>148</u>	<u>19,081</u>	<u>18,559</u>
Net gains/(losses) on investments	12 & 13	3,659	–	3,659	7,878
Net income/(expenditure)		<u>6,585</u>	<u>219</u>	<u>6,804</u>	<u>10,197</u>
Other recognised gains/(losses)					
Gain/(loss) on revaluation of fixed assets	26	2,902	–	2,902	5,987
Actuarial gain/(loss) on defined benefit pension scheme	22	39	–	39	(32)
Transfers between funds	26	2,908	(2,908)	–	–
Net movement in funds		<u>12,434</u>	<u>(2,689)</u>	<u>9,745</u>	<u>16,152</u>
Reconciliation of funds					
Total funds brought forward	26	<u>272,141</u>	<u>4,390</u>	<u>276,531</u>	<u>260,379</u>
Total funds carried forward		<u>284,575</u>	<u>1,701</u>	<u>286,276</u>	<u>276,531</u>

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 2018

		Unrestricted 2018	Restricted 2018	Total 2018	Total 2017
	Notes	£000	£000	£000	£000
Income and Endowments from:					
Voluntary income - donations and legacies	2	2,765	–	2,765	3,329
Charitable activities – Grant In Aid MOD	5	12,113	–	12,113	11,994
Investment income	4	3,395	–	3,395	2,559
Other income	6	1,102	–	1,102	1,224
Total Income and Endowments		<u>19,375</u>	–	<u>19,375</u>	<u>19,106</u>
Expenditure on:					
Raising funds		166	–	166	299
Charitable activities					
Infirmery nursing and medical		6,836	–	6,836	6,631
Welfare and ceremonial		2,234	–	2,234	2,116
Facilities management		7,421	–	7,421	7,423
Other activities – investment management costs		201	–	201	169
Total Expenditure		<u>16,858</u>	–	<u>16,858</u>	<u>16,638</u>
Net gain/(loss) on investments	12 & 13	3,659	–	3,659	7,878
Net income/(expenditure)		<u>6,176</u>	–	<u>6,176</u>	<u>10,346</u>
Other recognised gains/(losses)					
Gain/(loss) on revaluation of fixed assets	26	2,902	–	2,902	5,987
Actuarial gain/(loss) on defined benefit pension scheme	22	39	–	39	(32)
Transfers between funds	26	2,908	(2,908)	–	–
Net movement in funds		<u>12,025</u>	<u>(2,908)</u>	<u>9,117</u>	<u>16,301</u>
Reconciliation of funds					
Total funds brought forward	26	<u>268,981</u>	<u>4,192</u>	<u>273,173</u>	<u>256,872</u>
Total funds carried forward		<u>281,006</u>	<u>1,284</u>	<u>282,290</u>	<u>273,173</u>

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

Balance Sheets as at 31 March 2018

	Notes	Charity 2018 £000	Charity 2017 £000	Group 2018 £000	Group 2017 £000
Fixed Assets					
Heritage	11	18,437	18,437	18,437	18,437
Non heritage	11	124,288	119,935	124,337	119,990
Investment property	12	95,996	93,222	95,996	93,222
Listed Investments	13	43,099	40,724	42,682	40,307
		281,820	272,318	281,452	271,956
Current assets					
Stock	14	–	–	151	138
Debtors: falling due within one year	15	338	345	835	1,106
Cash at bank and in hand	16	2,328	2,857	6,801	7,125
		2,666	3,202	7,787	8,369
Current Liabilities					
Creditors: amounts falling due within one year	17	(1,832)	(1,894)	(2,599)	(3,341)
Net current assets/(liabilities)		834	1,308	5,188	5,028
Total assets less current liabilities		282,654	273,626	286,640	276,984
Creditors: amounts falling due after one year	18	(98)	(119)	(98)	(119)
Net assets excluding pension liability		282,556	273,507	286,542	276,865
Defined pension scheme liability	19	(266)	(334)	(266)	(334)
Net assets/(liabilities)		282,290	273,173	286,276	276,531
Funds					
Grant in Aid Fund	26	(6,986)	(6,652)	(6,986)	(6,652)
<i>Army Prize Money and Legacy Fund</i>					
Restricted Funds	26	1,284	4,192	1,284	4,192
Unrestricted Funds	26	276,347	265,977	276,347	265,977
Revaluation Reserve	26	8,889	5,987	8,889	5,987
Ranelagh and De la Fontaine Trust Capital	26	7	7	7	7
<i>Gordon House (London) Limited</i>	26	–	–	(189)	(200)
<i>Royal Hospital Chelsea Appeal Ltd Group</i>					
Restricted	26	–	–	417	198
Unrestricted	26	–	–	3,758	3,360
Designated reserve – building maintenance	26	2,749	3,662	2,749	3,662
Total funds		282,290	273,173	286,276	276,531

Signed on behalf of the Board of Commissioners on 30 October 2018

Gen Sir Adrian Bradshaw KCB OBE
Governor/ChairmanDame Barbara Monroe DBE
Deputy ChairmanA Gillibrand
Chair of the Audit Committee

Consolidated Statement of Cash Flows for the year ended 31 March 2018

	Group 2018	Group 2017
	£000	£000
Net cash provided by/(used in) operating activities	651	(658)
Cash flows from investing activities:		
Dividends, interest & rents from investments	1,825	2,568
Proceeds from the sale of investment property	1,189	–
Purchase of fixed assets	(2,816)	(1,948)
Proceeds from sale of fixed assets	14	8
Proceeds from the sale of investments	1,839	4,271
Purchase of investments	(3,026)	(12,339)
Net cash provided by/(used in) investing activities	<u>(975)</u>	<u>(7,440)</u>
Cash flows from financing activities	–	–
Change in cash and cash equivalents in the year	(324)	(8,098)
Cash and Cash equivalents at beginning of the year	<u>7,125</u>	<u>15,223</u>
Cash and Cash equivalents at the end of the year	<u>6,801</u>	<u>7,125</u>
Note 1		
Reconciliation of net income/(expenditure) to net cash flow from operating activities		
Net income/(expenditure) for the year	6,804	10,197
Adjustments for		
Depreciation charges	1,346	1,185
(Gains)/losses on investments	(3,659)	(7,878)
Dividends, interest & rents from investments	(3,403)	(2,568)
Loss/(profit) on the sale of fixed assets	–	–
(Increase)/decrease in stocks	(13)	(7)
(Increase)/Decrease in debtors	271	(390)
Increase/(decrease) in creditors	(763)	(1,202)
Movement on defined benefit pension scheme liability	68	5
Net cash provided by/(used in) operating activities	<u>(651)</u>	<u>(658)</u>
Note 2		
Analysis of cash and cash equivalents		
Cash at bank	<u>6,801</u>	<u>7,125</u>
Total cash and cash equivalents	<u>6,801</u>	<u>7,125</u>

Notes to the Financial Statements

1 Accounting Policies

a Basis of accounting

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

The Financial Statements consolidate on a line by line basis all the Restricted and Unrestricted Funds of the RHC and its related trading companies being Royal Hospital Chelsea Appeal Ltd (registered charity, number 1076414), Chelsea Pensioner (RH) Ltd and Gordon House (London) Ltd. The RHC's other two subsidiaries, Tricorne Traders Ltd and RHC Prime Minister Scholars Ltd, are dormant.

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

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

b Funds

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

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

c Incoming resources

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

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

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

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

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

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

d Resources expended

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

The RHC's charitable activities consist of the costs of the Margaret Thatcher Infirmary and medical centre, the costs of the welfare of in-pensioners in the Long Wards and associated activities and the management of the RHC's facilities, buildings and grounds.

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

e Tangible fixed assets

- i* **Freehold property:** The RHC's operational land and buildings were revalued by Savills, an independent firm of chartered surveyors, at 31 March 2016. The Margaret Thatcher Infirmary building was valued on the basis of a market assessment, the valuers having advised that a market in modern care facilities exists in the area. The remainder of the operational estate was valued on the basis of a "modern equivalent," the valuers having advised that the unique and historic nature of the RHC and its buildings and the planning restrictions preventing development of the grounds meant that no meaningful market value could be arrived at. A "modern equivalent" valuation is an estimate of the cost of acquiring a modern facility that would enable the RHC to carry out its functions. The 2016 values provided by Savills were reviewed at 31 March 2017 and again at 31 March 2018 by the RHC. The 2018 review resulted in an increase of £2,902.000 in the value of the RHC's operational property and an increase of £5,296.000 in the value of the investment property (see also "valuation" on page 9).

The operational estate is depreciated over its useful life as recommended by the Savills' valuation.

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

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

- 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 **Investment property:** Investment properties are shown at their open market value. These properties were revalued by an independent chartered surveyor at 31 March 2016 and the values were reviewed by the RHC at 31 March 2018. No depreciation is charged on investment properties.
- iv **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 102, which prevents operational assets being treated as heritage assets. These assets are revalued at 5-yearly intervals, the last revaluation was in March 2017.
- 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.

f *Listed investments*

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

g *Pensions*

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

h *Taxation*

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

i *Operating leases*

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

j *Stock*

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

2 Voluntary income

	Charity	Charity	Group	Group
	2018	2017	2018	2017
	£000	£000	£000	£000
Legacies and donations	<u>2,765</u>	<u>3,329</u>	<u>1,335</u>	<u>1,158</u>

3 Other Trading Activities

	Charity	Charity	Group	Group
	2018	2017	2018	2017
	£000	£000	£000	£000
RHC Appeal Limited	<u>-</u>	<u>-</u>	<u>4,261</u>	<u>3,710</u>

4 Investment income

	Charity	Charity	Group	Group
	2018	2017	2018	2017
	£000	£000	£000	£000
Income on investment portfolio	1,646	1,498	1,646	1,498
Income on commercial property	409	395	409	395
Lease Extension Premiums	1,333	659	1,333	659
Bank and investment interest received	<u>7</u>	<u>7</u>	<u>15</u>	<u>16</u>
Total	<u>3,395</u>	<u>2,559</u>	<u>3,403</u>	<u>2,568</u>

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

5 Income from charitable activities

	Charity	Charity	Group	Group
	2018	2017	2018	2017
	£000	£000	£000	£000
Grant in Aid received from the Ministry of Defence	<u>12,113</u>	<u>11,994</u>	<u>12,113</u>	<u>11,994</u>

6 Other income

	Charity	Charity	Group	Group
	2018	2017	2018	2017
	£000	£000	£000	£000
Staff accommodation charges	220	240	220	240
Family Practice	103	89	103	89
Food recoveries	52	52	52	52
Pension contributions (NHS)	110	110	110	110
In-Pensioner contributions	561	545	561	545
Other income	<u>56</u>	<u>188</u>	<u>68</u>	<u>413</u>
Total	<u>1,102</u>	<u>1,224</u>	<u>1,114</u>	<u>1,449</u>

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

7 Total resources expended (Group)

	Raising Funds	Infirmity nursing & medical	Welfare & ceremonial	Estate management	Support costs	Total 2018	Total 2017
	£000	£000	£000	£000	£000	£000	£000
Costs of generating voluntary income	901	-	128	236	4	1,269	986
Investment management costs	-	-	-	35	166	201	169
Staff costs	703	5,422	909	1,257	1,106	9,397	9,202
Other staff costs	-	36	4	1	102	143	166
Buildings and grounds maintenance costs	-	13	1	2,766	11	2,791	2,958
Information technology costs	-	-	-	-	160	160	138
In-pensioner living expenses	-	638	38	556	3	1,235	1,297
Catering costs	-	32	-	-	-	32	51
Council tax and rates	-	-	-	103	-	103	89
Security costs	-	-	-	-	736	736	793
Water, gas and electricity	-	-	-	636	-	636	565
Insurance	-	-	-	-	246	246	259
Audit fees	-	-	-	-	90	90	89
Surveyor fees	-	-	-	25	-	25	63
Consultancy fees	34	47	-	-	45	126	160
Legal fees	-	1	-	15	29	45	60
Office expenses	15	36	4	9	86	150	142
Other expenses	79	1	62	23	185	350	186
Depreciation	106	307	600	133	200	1,346	1,186
Total before re-allocation of support costs	1,838	6,533	1,746	5,795	3,169	19,081	18,559
Re-allocation of support costs	17	307	760	2,085	(3,169)		
Total expenditure	1,855	6,840	2,506	7,880		19,081	18,559

8 Staff costs and numbers

	Charity	Charity	Group	Group
	2018	2017	2018	2017
	£000	£000	£000	£000
Salaries and wages	6,187	6,111	6,824	6,747
Social security costs	597	595	659	654
Pension costs	1,049	1,069	1,167	1,189
Sub-total	<u>7,833</u>	<u>7,775</u>	<u>8,650</u>	<u>8,590</u>
Casual and agency pay	649	520	649	520
In-pensioner pay	74	65	98	92
Total	<u>8,556</u>	<u>8,360</u>	<u>9,397</u>	<u>9,202</u>

There were no payments in 2017-18 in respect of redundancy and compensation for loss of office (2016-17: £60k).

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

	2018	2017
	Number	Number
Infirmery, nursing & welfare	102	111
Estates Management	137	134
Commercial services & fundraising	8	15
Commercial services and fundraising	25	14
	<u>272</u>	<u>274</u>

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

Higher paid employees

The number of employees whose remuneration was over £60,000 in 2017 – 2018 (excluding pension contributions) was as follows:

Band	2018	2017
	Number	Number
£60,000 - £69,999	1	2
£70,000 - £79,999	–	1
£80,000 - £89,999	2	1
£90,000 - £99,999	1	1
£100,000 - £110,000	–	* 1
£120,000 - £129,000	1	1

* Includes severance payment

Five (2017: five) of the above staff contribute to the PCSPS defined benefits pension scheme.

Employer pension contributions for these staff were £110,000 (2017: £99,000).

The total remuneration of key management personnel was £484,000 (2017: £555,000). Employers' pension contributions for key management personnel were £117,000 (2017: £105,000).

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

	Actual salary 2018	Actual salary 2017	Real increase in pension during the year	Total accrued pension 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
Gen Sir Redmond Watt Governor	60-69	60-65	-	-	-	-	-
Gary Lashko Esq Chief Executive	120-129	120-129	0-5	5-7.5	50	95	35

Gen Sir Reddy Watt does not receive pension benefits from the RHC.

Commissioners' emoluments

None of the Commissioners received any remuneration for acting as Commissioners. Travel expenses of £215 (2017: £358) were claimed during the year by one (2017 : one) Commissioner. The Governor is a Commissioner and receives a salary as an employee of the RHC.

9 Governance costs

	Charity 2018	Charity 2017	Group 2018	Group 2017
	£000	£000	£000	£000
External Audit fees*	47	56	62	71
Internal Audit Fees	27	18	27	18
Legal Fees	35	54	62	61
Consultancy fees	91	132	133	160
Bank charges	-	-	1	1
Total	<u>200</u>	<u>260</u>	<u>285</u>	<u>311</u>

*The Charity figure relates to the NAO audit fee charge for the year ended 31 March 2018. The 2017 figure includes an additional charge of £6k for 2015-16 which was not accrued in that year. The Group figure includes the fees for the audit of the subsidiaries.

10 Subsidiary undertakings

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

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

i RHC Appeal Ltd

RHC Appeal Ltd is a company incorporated in England and limited by guarantee (no 03701005).

It is also a registered charity (no 1076414). It donates all its profits to the RHC.

Its financial results for the year to 31 March 2018 were:-

Statement of Financial Activities	2018	2017
	£000	£000
Income		
Donations & Legacies	1,335	1,385
Trading & other activities	4,269	3,720
Total Income	<u>5,604</u>	<u>5,105</u>
Expenditure		
Raising Funds	219	197
Gift aid donations	2,765	3,329
Trading & other costs	2,003	1,723
Total Expenditure	<u>4,987</u>	<u>5,249</u>
Net incoming/(outgoing) resources	<u>617</u>	(144)
Net funds at the beginning of the year	3,558	3,702
Net funds at end of year	<u>4,175</u>	<u>3,558</u>
Balance Sheet	2018	2017
	£000	£000
Tangible Assets	49	52
Current Assets	5,547	5,631
Current Liabilities	(1,421)	(2,125)
Net current assets	<u>4,126</u>	<u>3,506</u>
Total net assets	<u>4,175</u>	<u>3,558</u>
Unrestricted reserves	3,758	3,360
Restricted reserves	417	198
Total reserves	<u>4,175</u>	<u>3,558</u>

ii Gordon House (London) Ltd

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

Its financial results for the year to 31 March 2018 were:-

	2018	2017
	£000	£000
Profit and loss account		
Turnover	12	-
Administrative costs	(1)	(2)
Profit/(Loss) for the year	11	(2)
Profit & loss account brought forward	(200)	(198)
Profit & loss account carried forward	<u>(189)</u>	<u>(200)</u>
Balance sheet		
Current assets	<u>230</u>	<u>220</u>
Current liabilities	<u>(2)</u>	<u>(3)</u>
Net current assets & net assets	<u>228</u>	<u>217</u>
Share capital	417	417
Profit & loss account	<u>(189)</u>	<u>(200)</u>
Total capital & reserves	<u>228</u>	<u>217</u>

iii *Chelsea Pensioner (RH) Ltd*

CPRH is incorporated in England - no 03853787. The whole of its issued share capital - 1,000 shares of £1 each - is owned by RHC Appeal Ltd. The company conducts trading activities concerned with the rental of the RHC's facilities to outside organisations. Its financial results for the year to 31 March 2018 were-

Profit & Loss Account	2018	2017
	£000	£000
Cost of sales	(387)	(355)
Staffing and administrative costs	(1,116)	(1,071)
Other operating expenses	(53)	(29)
Turnover	4,261	3,710
Profit before interest and tax	2,705	2,255
Other gains/(losses):		
Bank interest receivable	7	7
Donation to RHC Appeal Limited	(2,712)	(2,262)
Profit/(loss) for the year	-	-
Profit & loss account brought forward	39	39
Profit & loss account carried forward	39	39
Balance Sheet	2018	2017
	£000	£000
Fixed assets	35	51
Current assets	3,444	3,677
Current liabilities	(3,439)	(3,688)
Net current assets	5	(11)
Total net assets	40	40
Share capital	1	1
Profit & loss account	39	39
Total capital & reserves	40	40

iv Tricorne Traders Ltd

This company is incorporated in England - no 07382655. It formerly operated the RHC's food and beverage services where these are chargeable to either in-pensioners or external users. The company's share capital consists of 1,000 £1 shares all of which are held by RHC Appeal Ltd. It has been dormant since 1 April 2016.

v RHC Prime Minister Scholars Ltd

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

11 Tangible fixed assets

Heritage and non heritage

	Land and buildings	Plant, machinery & equipment	Vehicles	Exhibits	Group Total 2018	Group Total 2017
	£000	£000	£000	£000	£000	£000
Cost or valuation						
At 1 April 2017	118,068	4,501	252	17,867	140,688	133,653
Additions at cost	2,709	75	32	–	2,816	1,948
Disposals	–	–	(14)	–	(14)	(8)
Adjustment	–	–	(10)	–	(10)	–
Revaluation	1,833	–	–	–	1,833	5,095
	122,610	4,576	260	17,867	145,313	140,688
Depreciation						
At 1 April 2017	–	(2,167)	(95)	–	(2,262)	(1,969)
Depreciation charge for the year	(1,069)	(258)	(19)	–	(1,346)	(1,185)
Revaluation	1,069	–	–	–	1,069	892
At 31 March 2018	–	(2,425)	(114)	–	(2,539)	(2,262)
Net book value						
At 1 April	118,068	2,334	157	17,867	138,426	131,684
At 31 March	122,610	2,151	146	17,867	142,774	138,426

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

Grant in Aid Fund	–	211	10	–	221	240
Army Prize Money and Legacy Fund	122,600	1,915	122	17,867	142,504	138,134
Subsidiaries	10	25	14	–	49	52
	122,610	2,151	146	17,867	142,774	138,426

Heritage

	Land and buildings	Plant, machinery & equipment	Vehicles	Exhibits	Group Total 2018	Group Total 2017
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
Cost or valuation						
At 1 April	570	-	-	17,867	18,437	16,405
Revaluation	-	-	-	-	-	2,032
At 31 March 2018	<u>570</u>	<u>-</u>	<u>-</u>	<u>17,867</u>	<u>18,437</u>	<u>18,437</u>
Depreciation						
At 1 April 2017	-	-	-	-	-	-
At 31 March 2018	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net book value						
At 1 April	570	-	-	17,867	18,437	18,437
Valuation at 31 March	<u>570</u>	<u>-</u>	<u>-</u>	<u>17,867</u>	<u>18,437</u>	<u>18,437</u>

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

Army Prize Money and Legacy Fund	570	-	-	17,867	18,437	18,437
	<u>570</u>	<u>-</u>	<u>-</u>	<u>17,867</u>	<u>18,437</u>	<u>18,437</u>

Non heritage

	Land and buildings	Plant, machinery & equipment	Vehicles	Exhibits	Group Total 2018	Group Total 2017
	£000	£000	£000	£000	£000	£000
Cost or valuation						
At 1 April	117,498	4,501	252	-	122,251	117,248
Additions at cost	2,709	75	32	-	2,816	1,948
Disposals	-	-	(14)	-	(14)	(8)
Adjustment	-	-	(10)	-	(10)	-
Revaluation	1,833	-	-	-	1,833	3,063
	<u>122,040</u>	<u>4,576</u>	<u>260</u>	<u>-</u>	<u>126,876</u>	<u>122,251</u>
Depreciation						
At 1 April 2017	-	(2,167)	(95)	-	(2,262)	(1,969)
Depreciation charge for the year	(1,069)	(258)	(19)	-	(1,346)	(1,185)
Revaluation	1,069	-	-	-	1,069	892
At 31 March 2018	<u>-</u>	<u>(2,425)</u>	<u>(114)</u>	<u>-</u>	<u>(2,539)</u>	<u>(2,262)</u>
Net book value						
At 1 April	117,498	2,334	157	-	119,989	115,279
At 31 March	<u>122,040</u>	<u>2,151</u>	<u>146</u>	<u>-</u>	<u>124,337</u>	<u>119,989</u>

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

Grant in Aid Fund	-	211	10	-	221	240
Army Prize Money and Legacy Fund	122,030	1,915	122	-	124,067	119,697
Subsidiaries	10	25	14	-	49	52
	<u>122,040</u>	<u>2,151</u>	<u>146</u>	<u>-</u>	<u>124,337</u>	<u>119,989</u>

Separate disclosure of charity-only fixed assets is not shown as the difference from group is not material.

Operational Estate

Non-Heritage Assets

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

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

The values were reviewed by the RHC at 31 March 2018 (see page 9).

The valuations were arrived at predominantly by reference to market evidence for comparable property and, in the case of operational buildings, the BICS building cost index.

Heritage Assets

Heritage assets as defined under FRS 102 are valued every five years. The last valuation, by Gurr-Johns, was at 31 March 2017.

- a The RHC’s heritage assets are principally composed of art and artefacts and it has a holding of 887 (2017: 887) such exhibits with a total value of £17,867,000 (2017: £17,867,000). 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. At the 2017 valuation a number of items not previously considered to be of heritage value were included. This accounted for an increased number of items in the valuation – these were not new acquisitions.

The items currently held at valuation total £17,867,000 (2017: £17,867,000). The Exhibits are deemed to have indeterminate lives and the Commissioners consider it inappropriate to charge depreciation.

- b Additionally there is one piece of land known as Royal Avenue, which also is classed as a heritage asset. This represents the original approach road to the RHC from the Kings Road and gives a view of the RHC as intended by Sir Christopher Wren. It was valued by Savills as at 31 March 2016 with a market value of £570,000. As a heritage asset, this land is revalued every five years.
- c The RHC does not have a policy of actively acquiring new heritage assets, although a small number have been purchased e.g. a new stained glass window for All Saints Chapel. Many of the exhibits are accessible to the public visiting the site either in guided parties or individually.

12 Investment property

	2018	2017
	£000	£000
Balance at 1 April	93,222	89,410
Disposal	(2,522)	(659)
Gain on revaluation	5,296	4,471
Balance at 31 March	<u>95,996</u>	<u>93,222</u>

Investment property consists of land and buildings which are not part of the RHC’s operational estate. Most of the investment property is currently let on long or short term leases or licences. Investment property consists of Chelsea Court, Embankment Gardens, Wellington Buildings, Chelsea Gardens, and Gordon House. These properties were professionally valued by Savills in 2016 and the values have subsequently been reviewed and updated by the RHC in line with local market trends. A further professional valuation will be carried out in 2019 (see also pp 9 & 29).

13 Listed Investments

	2018	2017
	£000	£000
Market value at 1 April	40,307	28,205
Additions at cost	3,026	12,339
Cost of investments sold	(1,800)	(4,271)
Income reinvested (accumulation)	1,414	–
Realised gain/(loss)	39	(32)
Unrealised gain/(loss)	(304)	4,066
Market value at 31 March	<u>42,682</u>	<u>40,307</u>
Historic cost at 1 April	33,004	23,626
Historic cost at 31 March	35,604	33,004

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

14 Stock

	Charity	Charity	Group	Group
	2018	2017	2018	2017
	£000	£000	£000	£000
Shop and catering stocks	<u>–</u>	<u>–</u>	<u>151</u>	<u>139</u>

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

15 Debtors: amounts falling due within one year

	Charity	Charity	Group	Group
	2018	2017	2018	2017
	£000	£000	£000	£000
Trade debtors	–	–	70	113
Prepayments and accrued income	128	186	727	980
Amounts due from subsidiary undertakings	171	148	–	–
Other debtors	39	11	38	14
Total	<u>338</u>	<u>345</u>	<u>835</u>	<u>1,107</u>

16 Cash at bank and in hand

	Charity	Charity	Group	Group
	2018	2017	2018	2017
	£000	£000	£000	£000
Cash at bank and cash equivalents	2,325	2,856	6,798	7,124
Cash in hand	3	1	3	1
Total	<u>2,328</u>	<u>2,857</u>	<u>6,801</u>	<u>7,125</u>

17 Creditors: amounts falling due within one year

	Charity	Charity	Group	Group
	2018	2017	2018	2017
	£000	£000	£000	£000
Trade Creditors	–	–	190	147
Accruals and deferred income	370	242	1,409	1,944
Amounts due to subsidiary undertakings	481	406	–	–
Other creditors	981	1,246	1,000	1,250
Total	<u>1,832</u>	<u>1,894</u>	<u>2,599</u>	<u>3,341</u>

Movement on Deferred Income

	2018	2017
	£000	£000
Brought forward at the beginning of the year	1,674	1,635
Released to SOFA during the year	(1,674)	(1,635)
Deferred to future periods	1,039	1,674
Carried forward at the end of the year	<u>1,039</u>	<u>1,674</u>

Income has been deferred in respect of invoices raised for events occurring post year end.

18 Creditors - amounts falling due after more than one year

	Charity	Charity	Group	Group
	2018	2017	2018	2017
	£000	£000	£000	£000
Chapel music foundation	56	82	56	82
Chapel fund	12	11	12	11
Advance funeral payments	30	26	30	26
Total	<u>98</u>	<u>119</u>	<u>98</u>	<u>119</u>

19 Pension liability

	Charity	Charity	Group	Group
	2018	2017	2018	2017
	£000	£000	£000	£000
Defined Benefit Pension liability	<u>266</u>	<u>334</u>	<u>266</u>	<u>334</u>

20 Contingent liabilities

The RHC has no contingent liabilities.

21 Contingent assets

Under the terms of the agreement for the sale of the lease of Gordon House the RHC is entitled to a further sum of around £20m from the buyer once certain conditions related to the sale of the property have been met. It is not yet possible to say precisely when this payment will become due, but it is not expected to be before 2019 at the earliest.

22 Pensions

During the year the RHC participated in three pension schemes, as follows:

Principal Civil Service Pension Scheme (PCSPS)

Pension benefits for 201 (2017: 192) members of staff are provided through the Civil Service Pension arrangements. From 1 April 2015 a new pension scheme for civil servants was introduced – the Civil Servants and Others Pension Scheme or alpha, which provides benefits on a career average basis with a normal pension age equal to the member's State Pension Age (or 65 if higher). From that date all newly appointed civil servants and the majority of those already in service joined alpha. Prior to that date, civil servants participated in the Principal Civil Service Pension Scheme (PCSPS). The PCSPS has four sections: 3 providing benefits on a final salary basis (classic, premium or classic plus) with a normal pension age of 60; and one providing benefits on a whole career basis (nuvos) with a normal pension age of 65.

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

benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

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

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

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

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

For 2018, employers' contributions of £920,713 were payable to the PCSPS (2017: £904,890) at one of four rates in the range of 16.7% to 24.3% of pensionable pay, based on salary bands.

No contributions were payable to stakeholder schemes in 2018.

NHS Pension Scheme (NHSPS)

The RHC has 76 (2017: 81) members of staff in the NHS Pension Scheme which is an unfunded multi-employer defined benefit scheme, but the RHC is unable to identify its share of the underlying assets and liabilities. The last formal actuarial valuation undertaken for the NHS Pension Scheme was completed as at 31 March 2004 (published in December 2007). Consequently, a formal actuarial valuation would have been due to have been completed as at 31 March 2008. However, formal actuarial valuations for unfunded public service pension schemes have been suspended by HM Treasury on value for money grounds while consideration is given to recent changes to public service pensions and while future scheme terms are developed as part of the reforms to public service pension provision. The primary purpose of the formal actuarial valuations is to set employer and employee contribution rates, and these are currently being determined under the new scheme design. Between valuations, the Government Actuary provides an update of the scheme's liabilities on an annual basis. The latest assessment of the liabilities of the scheme is contained in the Scheme Actuary report, which forms part of the NHS Pension Scheme (England and Wales) Resource Account, published annually.

These accounts can be viewed at the NHS Pensions Agency website at www.nhsbsa.nhs.uk/pensions. This is a statutory, defined benefit scheme, the provisions of which are contained in the NHS Pension Scheme Regulations 1995 and 2008. Under these regulations the RHC is required to pay an employer's contribution, currently 14% of pensionable pay, as specified by the Secretary of State for Health. For 2018, employers' contributions of £246,237 were payable to the NHS Pension Scheme (2017: £239,448). These contributions are charged to operating expenses as and when they become due.

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

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

Unfunded scheme

Former Governors, Lieutenant Governors and Captains of Invalids are members of an unfunded defined benefit scheme. The scheme has 10 (2017: 10) 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 £34,182 (2017: £35,411).

Financial Reporting Standard 102 (FRS 102) – Retirement benefits

The latest FRS 102 valuation of the liabilities in respect of the unfunded pension entitlements was carried out as at 31 March 2018, by an independent qualified actuary, using the key FRS102 assumptions set out in the following table, which reflect the nature of the liabilities. These pensions are all currently in payment and increase with price inflation (measured using the Consumer Prices Index).

Assumptions	2018	2017
Price inflation/pension increase per annum	1.9%	1.9%
Discount rate per annum	2.2%	1.7%

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 (2017: 10 years).

The following table sets out as at 31 March 2018 the present value of the FRS 102 liabilities, which is equal to the gross pension liability, along with a 4-year history. No further benefits are currently being earned under this arrangement.

	2018	2017	2016	2015	2014
	£000	£000	£000	£000	£000
Defined benefit pension scheme liability	<u>266</u>	<u>334</u>	<u>329</u>	<u>372</u>	<u>390</u>

The gross pension liability resides within the RHC's unrestricted funds. Its only impact on the resources available for general application are, the annual payments to the pensioners of £34,000 for 2018 (2017: £35,000).

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

	Year to 31 March	
	2018	2017
	£000	£000
Gross pension liability at the beginning of the year	334	329
Pensions paid	(34)	(35)
Interest cost	5	8
Actuarial (gain)/loss on defined benefit pension scheme	(39)	<u>32</u>
Gross pension liability at the end of the year	<u>266</u>	<u>334</u>

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

	Year to 31 March	
	2018	2017
	£000	£000
Interest on gross pension liability	<u>5</u>	<u>8</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 2018 is a loss/(gain) of £(39,000) (2017: loss of £32,000). The cumulative amount recognised in the "gains and losses" categories of the SOFA since 2003 (as required by paragraph 28 of FRS 102) is a loss of £129,000 (2017: loss of £168,000).

23 Operating leases

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

	2018	2017
	£000	£000
Leases due to expire:-		
Within 1 year	13	34
Within 2-5 years	34	10
After more than 5 years	1	-

24 Capital commitments

	2018	2017
	£000	£000
Authorised and contracted	189	2,709

The sum for 2018 consists of amounts budgeted for various small ICT projects and equipment purchase. Not all of this was formally committed with suppliers by 31st March 2018.

25 Losses and write offs

There were no losses and write offs in the year ended 31 March 2018.

26 Movement in funds - Group

	Balance as at 1 April 2017	Incoming resources	Resources expended	Other gains	Transfers	Balance at 31 March 2018
	£000	£000	£000	£000	£000	£000
Unrestricted Funds						
Grant in Aid	(6,652)	12,113	(12,486)	39	-	(6,986)
Army Prize Money and Legacy Fund						
General reserve	265,977	4,498	(1,608)	3,659	3,821	276,347
Ranelagh & De La Fontaine Trust Capital	7	-	-	-	-	7
Revaluation Reserve	5,987	-	-	2,902	-	8,889
Gordon House London (Limited)	(200)	12	(1)	-	-	(189)
RHC Appeal Group Ltd	3,360	5,236	(4,838)	-	-	3,758
Total unrestricted funds	268,479	21,859	(18,933)	6,600	3,821	281,826
Restricted funds						
Army Prize Money and Legacy Fund						
Campbell Ward	34	-	-	-	-	34
Cadogan Donation	27	-	-	-	-	27
IP Activities	72	-	-	-	-	72
MTI fund	34	-	-	-	-	34
Garden & Allotments	82	-	-	-	-	82
Gordon House Fund	3,943	-	-	-	(2,908)	1,035
RHC Appeal Group Ltd	198	367	(148)	-	-	417
Total restricted funds	4,390	367	(148)	-	(2,908)	1,701
Designated reserve – building maintenance	3,662	-	-	-	(913)	2,749
Total funds	276,531	22,226	(19,081)	6,600	-	286,276

Unrestricted Funds

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

Designated funds

In 2016-17 the Board of Commissioners, on the advice of the Estates Committee, agreed to create a designated reserve for the maintenance of the RHC's operational buildings. It was agreed that the amount set aside should be the expected figure of maintenance expenditure for the ensuing year as shown in the RHC's 25-year maintenance plan.

Restricted Funds

The *Campbell Ward Fund* represents donations raised from a special appeal to create a specialist dementia care facility.

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

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

The *Gordon House Fund* represents the proceeds of the sale of the Gordon House lease. Under the terms of the Section 106 agreement with RBKC these proceeds may only be used for heritage capital expenditure. The movement of £2,908,000 shown on this fund consists of a receipt of £1,177,000 from the leaseholder and a transfer to general reserves of £4,085,000. The receipt is an overage payment due under the terms of the lease as more space has been created at the property than was originally planned. The transfer to general reserves represents expenditure incurred on heritage capital projects which have been agreed by RBKC as falling within the terms of the Section 106 agreement. The assets purchased are capitalised in the APML account when the various projects are completed.

The IP activities, MTI and Garden and Allotments funds represent funds donated for these specific purposes.

27 Derivatives and other Financial Instruments

FRS 102 requires disclosure of the role which financial instruments have had during the year in creating or changing the risks an entity faces in undertaking its activities. Financial instruments include investments in equity shares and bonds, cash held on deposit and other receivables. The RHC's position is:-

	Charity	Charity	Group	Group
	2018	2017	2018	2017
	£000	£000	£000	£000
Financial Assets				
Listed Investments	43,099	40,724	42,682	40,307
Cash held	2,328	2,857	6,801	7,125
Rent & other receivables	338	345	835	1,106
Total	<u>45,765</u>	<u>43,926</u>	<u>50,318</u>	<u>48,538</u>
Financial Liabilities				
Trade & other payables	981	1,247	1,190	1,397
Total financial liabilities	<u>981</u>	<u>1,247</u>	<u>1,190</u>	<u>1,397</u>

Interest Rate Risk

The RHC has exposure to interest rate risk through its cash balances. This risk is not material as cash balances form only a small proportion of financial assets. The impact of interest rate movements on listed investment values is considered below under "market price risk."

Currency Risk

The RHC is exposed to currency risk through the element of listed investments held in non-UK assets. Approximately 25% of the portfolio is held in assets valued in currencies other than sterling. These investments are held for the long term and the proportion of funds held in non-sterling assets is monitored by the Investment Committee on a regular basis.

Market Price Risk

The RHC is exposed to market price movements through its listed investment holdings, apart from funds held in cash. Listed investments are managed by professional managers under the supervision of the Investment Committee. The portfolio invests in a diverse range of asset classes and markets designed to balance risk and return. These investments are held for the long term and therefore the risks arising from short-term market movement are small.

Credit risk

Credit risk is the possibility that a counterparty (eg a bank) will default on its obligations. The RHC is exposed to credit risk in respect of its cash deposits and receivables. Cash deposits are held at the RHC's main bank, Barclays, and the risk is therefore considered to be acceptable. Receivables consist of a large number of small amounts due from a variety of customers and the risk of default of an individual customer is not material.

28 Post balance sheet events

There are no post balance sheet events to report. These accounts were authorised for issue on the same date as the C&AG's Audit Certificate.

29 Related Parties

Some Commissioners have links with organisations with which the RHC has a financial relationship (such as the MoD and the Army). All Commissioners and senior managers complete an annual Declaration of Interests return and are required to declare any interest in items discussed at Board and Committee meetings. The Board is satisfied that no conflicts of interest arose during the year ended 31 March 2018.

For further information about the National Audit Office please contact:

National Audit Office
Press Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP
Tel: 020 7798 7400
Email: enquiries@nao.org.uk

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