

Royal Hospital Chelsea Account 2019-20

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Officers and Commissioners

Chairman of the Board of Commissioners

HM Paymaster General

Ex-officio Commissioners

HM Paymaster General – Rt Hon Mel Stride MP (to 23 May 2019)

Rt Hon Jesse Norman MP (23 May – 24 July 2019)

Rt Hon Oliver Dowden MP (24 July 2019- 13 Feb 2020)

Hon Commander Rt Hon Penny Mordaunt MP (from 13 Feb 2020)

Minister of State for the Armed Forces -

Rt Hon Mark Lancaster TD VR MP (to 16 December 2019)

Rt Hon Anne-Marie Trevelyan MP (16 December 2019 – 13 February 2020)

James Heapey MP (from 13 February 2020)

Minister for Defence People and Veterans –

Rt Hon Tobias Ellwood MP (to 29 July 2019)

Johnny Mercer MP (from 29 July 2019)

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

Senior Health Advisor (Army) – Brigadier Tim Hodgetts CBE

Director of Engagement & Communications (Army) - Major General Neil Sexton

Governor, Royal Hospital Chelsea – General Sir Adrian Bradshaw KCB OBE DL

Specially Appointed Commissioners

Mrs Angela Gillibrand (to 31 August 2019)

Dame Barbara Monroe DBE (Deputy Chairman)

Mark Gallagher Esq (to 30 April 2020)

Charles Lewington Esq OBE (to 30 April 2020)

Ms Jo Cleary

Dr Roger Bowdler

Colonel Paul Foster

Richard Clark Esq

Professor Charles Mackworth Young CVO

Dominic Fisher Esq OBE

Ms Caroline Trehitt (from 1 September 2019)

Accounting Officer and Chief Executive Officer

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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 12 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 for taxation purposes 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 agreement signed by the RHC on 31 July 2018. The agreement is due to be renewed in 2021. IPs not in receipt of an army pension, or whose pensions are small, may pay top-up charges based 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 (GiA) 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 GiA does not cover the cost of major capital projects or the upkeep of the grounds. These costs are paid out of the Prize Money and Legacy Fund, which is 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 GiA.

Income for the 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 8).

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 275 staff (2019: 272) of whom 102 (2019: 100) are medical, nursing and care staff.

The COVID 19 pandemic

The pandemic has had a major impact on the RHC's activities, though this is not reflected in the financial statements for 2019-20 as it began only a couple of weeks before the end of the financial year. The site was closed to the public in early March and locked down completely from late March until June. During this period IPs were not permitted to leave and social interaction was minimised. IPs deemed particularly vulnerable were completely isolated in their berths and others had to maintain social distancing of 2m at all times.

Despite this it transpired that the infection had already entered the RHC before restrictions were imposed. Testing has shown that around 130 IPs have had some level of infection. Sadly 10 of these infections proved fatal, 70 showed symptoms but recovered and 50 infections were asymptomatic. Restrictions have now been relaxed somewhat but the situation is far from normal and it is not clear when full social interaction will be possible again.

The pandemic has led to a loss of income from cancelled events and additional costs that are estimated at £3.2m; these will be reflected in the accounts for 2020-21. It has also led to a material uncertainty in the valuations of property which are shown in the Balance Sheet.

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 those who have served in the Army aged 65 or over and has care home facilities, the Margaret Thatcher Infirmary (MTI) 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 Army 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.

The RHC has maintained its nationally important heritage building and artefacts to a high standard and in 2019-20, before the pandemic, 22,000 people visited the site for tours, academic activity, to worship in the Chapel and view the exhibits in the museum. A digital archive of records, which will be made available to the public through a website, is being created. An Education Worker has been employed to work in a more structured way with local schools and ensure that pupils and teachers enjoy maximum educational benefit from the RHC's heritage. The Chapel provides a place of worship and communion and provides a setting for both private and public commemorative events, particularly in support of Army veterans and Regimental Associations. The RHC's grounds are used for major events which support the local economy by bringing in significant additional income for local shops restaurants and businesses, which also provide employment opportunities. Other military charities, occupy office space on the RHC's site, for which they are charged only a nominal rent.

Much of the RHC's accommodation, known as Long Wards, is set in the 17th century Wren buildings but it has been modernised over the years and now consists of just over 200 ensuite study bedrooms. The Wren buildings also include the magnificent Great Hall and Chapel, which have also been carefully restored. The Soane Stable Block is the only part of the heritage buildings which has not yet been refurbished. Plans have been made to convert this building incorporating a heritage centre, café, museum and shop and facilities for outreach services. Work is expected to start on site in the 2020-21 financial year subject to final approval being given by the Board of Commissioners. A new building for hobbies and activities for IPs is also planned, work on this is expected to start in the Autumn of 2020.

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 RHC achieved a small financial surplus on its operations in 2019-20. 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 services.

As noted above, the Covid pandemic is expected to lead to a financial loss of around £3.2m in the 2020-21 financial year. The bulk of this arises from the cancellation of events and the loss of associated trading income. Steps have been taken to reduce costs and reductions in staff are being made which are expected to bring the budget back to a breakeven position in 2021-22.

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 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 the adoption of a formal Scheme of Delegation and more systematic use of Key Performance Indicators (KPIs). These recommendations have been accepted and implemented. A new Governance Manual was adopted by the Board of Commissioners in January 2019. A further review of governance will be carried out in 2020-21..

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. A regular briefing on Executive Board business is also produced. 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.

The RHC adopted new strategic targets in early 2019. The plan 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 new strategic targets for the next few years are to increase the RHC's reach to army veterans, including offering outreach services, to develop the heritage and commercial possibilities of the site through the refurbishment of the Soane Stable Block to include a new Heritage Centre. The refurbishment of the MTI is also being planned. The RHC intends to work much more closely with the National Army Museum, with whom the RHC held the first Chelsea History Festival in the Autumn of 2019.

The RHC has reconsidered these priorities following the COVID 19 pandemic. Whilst all the proposed developments remain relevant, it has been agreed to bring forward the MTI refurbishment and delay the Soane Stable Block as funding opportunities for the former project are more favourable in the light of the pandemic. A full review of strategy will be held in the Autumn of 2020.

Review of achievements and performance for the year 2019-2020

Executive Summary 2019 – 20

During the year covered by this review the RHC started work on the Strategic Plan which was approved by the Board in April 2019. The overall aims of the 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. The impact of the Covid pandemic means that the plan will need to be reviewed and this work is ongoing but in 2019-20 the Plan envisaged a number of capital developments, including the creation of a Heritage Centre in the Soane Stable Block and the refurbishment of the MTI. It also called for the expansion of RHC's activities through the creation of outreach services which will be offered to veterans from all branches of HM forces. Major developments during the year include:-

i The RHC adopted new a values structure with four principal values which are intended to inform all of its activities – these are Respect Individuals, Nurture Belonging, Encourage Pride and Enjoy Life.

The values were developed by a working group involving all stakeholders and assisted by an external consultant. The values have been incorporated into the annual staff appraisal system.

ii The Board agreed plans for the development of new storage space and a new Activity Centre to house hobby rooms and other recreational facilities for IPs.

Work on the storage facility, which is budgeted at £1.8m, is expected to be completed in the Autumn of 2020. Work on the Activity Centre, which is expected to cost £3.3m will start on site later this year.

iii The security of the RHC site was greatly enhanced with the installation of CCTV on all entrances and biometric access control to all residential areas.

The biometric system works on facial recognition and controls access to all areas containing IP berths. The system went live in January 2020 and has proved very successful.

iv The installation of secondary glazing in IP berths was agreed by the planning authorities and work commenced.

This work has been pending for many years but has been delayed partly through heritage concerns. These issues have now been resolved and work started in early 2020 but was suspended in March because of the pandemic. It will be completed as soon as it is possible to allow contractors to access to IP berths.

v The MTI achieved platinum status in the Gold Standard Framework for end of life care.

This status is rarely achieved and an exceptional achievement for the RHC.

vi The final payment of £20.7m for the sale of the long lease on Gordon House was received in November 2019

These funds have been added to the RHC's listed investments.

vii The RHC "Our People" strategy was agreed.

This is a comprehensive HR strategy for enhancing the care and development of the RHC workforce.

viii The first Chelsea History Festival was held, organised jointly with the National Army Museum, the Chelsea Physic Garden and the Army London District.

The festival involved a series of lectures, exhibitions and other events held over a weekend in October 2019. It is hoped that this festival will take place annually in future though social distancing arrangements will affect plans for the Autumn of 2020 and some events are expected to be held online.

ix A new electronic system for IP records was installed.

A system called Karelnn went live in early 2019. The system enables electronic recording of all aspects of the care and support which the RHC provides for IPs and will provide both a vital management tool and a robust source of data for future analysis.

x The RHC has agreed with Northumbria University Veteran Research Hub to second a PhD student to the RHC for three years.

The student will work produce an outcomes framework to demonstrate how the RHC benefits IPs in terms of increased life expectancy and in other ways.

xi Surveys of IPs and staff were carried out to gauge current opinions.

More than 90% of IPs expressed satisfaction with the services provided to them by RHC.

xii New light weight scarlets were commissioned.

Funding for these was raised through an appeal last year; the traditional scarlet coat can be hot in Summer and so IPs will be provided with a lightweight alternative which is visually identical for use during warm weather.

xiii A new electronic Human resources system, CIPHR, was procured.

The system will go live in 2020-21.

xiv The National Heritage Lottery Fund agreed to pay for preliminary work on plans for the Soane Stable Block.

However a possible application for further support will not be considered at present as funding for such projects is suspended because of the pandemic.

Financial review and results for the year

The total funding received from the Ministry of Defence was £12,695k (2019: £12,235k). Income from other sources, including fundraising activities, investments and donations was £10,991K. (2019: £9,370K). Total income was £23,686K, an increase of some £2,081k (9.6%) on 2019. However £830k of this was due to one-off factors (a VAT refund of £410k and lease extension premium of £420k), the underlying increase was 5.8%. Costs attributable to RHC's charitable activities were £20,328k (2019: £19,092K), an increase of £1,236K (6.5%). Other costs were £2,200K (2019 £1,829K), an increase of £371K (20.3%). This was due to an increase in fundraising costs as the RHC geared up for a fundraising campaign for capital works for the Soane Stable Block and MTI.

The net deficit, after movements on investments, was £3,552K (2019: surplus of £2,922K). Taking into account other gains and losses total funds fell from £292,005K in 2019 to £289,600K this year (see below & notes 1 & 26). The deficit is due to the substantial falls in the stock market which took place in March 2020 at the start of the COVID 19 pandemic. This led to a large drop in the value of the RHC's listed investments, though most of the losses were reversed in the first few months of 2020-21. The pandemic had no material impact on the RHC's operating accounts before 31 March 2020 though in 2021-22 there will be a significant impact estimated at £3.2m (see p 5 above).

Total funds donated through the RHC Appeal Ltd and its subsidiaries amounted to £2,722K (2019: £4,227K). Trading results of the subsidiaries are discussed below and further details are contained in note 10 to the accounts.

Valuation

The RHC's operational and investment estate was revalued as a desktop exercise at 31 March 2020 by Savills, Chartered Surveyors. The surveyors advised that a "modern equivalent" valuation was the most appropriate basis for valuing most of the operational 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 revaluation resulted in a gain of £1,103k on operational property and £803k on investment property (see notes 11 & 12). The valuers noted that due to the disruption in the property market caused by the pandemic there is a material uncertainty in the values given.

During the year the 200-year lease on Providence House (formerly known as Gordon House) was completed and the RHC received the final payment of £20.7m. The basis of the payment had been agreed as part of the original sale arrangements in 2012 and the Balance Sheet value was adjusted in the 2018-19 accounts so no gain or loss arises on this transaction in 2019-20. The proceeds are held in RHC's investments managed by BlackRock and Sarasin.

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 £3,169K (2019: £3,103K) of which £949K (2019: £917K) was restricted. During the year the subsidiary donated a total of £2,722K (2019: £4,227K) 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 now known as Providence House, which was achieved in 2012/13. The transaction was finally completed in November 2019. The subsidiary held 1% of the initial lease of the property and as such

it received 1% of the final payment. Now that the transaction is completed the company can be dissolved and its assets and liabilities transferred back to the parent organisation. This will be done in 2020-21.

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) 102, there is a pension liability of £196k (2019: £264K) 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 grow the real value of the RHC's investments over time;
- 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) to cover
 - i any deficit forecast from spending on capital projects in the next 24 months and
 - ii Deficits in operating cash flow over a similar period. Deficits arising from capital projects will be funded in advance. An operating deficit may be funded from capital, depending on its size and duration.

The executive will make quarterly recommendations for investment or divestment to the investment committee taking account the paragraph above.

- 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 Board 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 2020 the RHC held cash reserves of £7,933k (2019: £3,221k), which represents almost five months' unrestricted running costs (excluding depreciation). Liquid reserves (cash and traded investments) were £77,845k (2019: £60,453K), which represents 6.1 years' GiA funding and 3.8 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. Until 2018 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 £10m of the funds in the Armed Forces Common Investment Fund (AFCIF) managed by BlackRock Fund Managers Ltd. The remaining investments will continue to be managed by Sarasin & Partners LLP.

The Investment Committee decided to invest the bulk of the proceeds of the Gordon House lease sale with BlackRock in order to make the amounts managed by each manager roughly the same; at 31 March 2020 BlackRock held 46% of RHC's listed investments and Sarasin held 54%. During the year the funds held by Sarasin were consolidated into a single holding in the Sarasin Endowments Fund and a small holding in the Sarasin Income and Reserves Fund was sold.

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.

Investment Objectives

The Board of Commissioners reviewed its investment objectives at a meeting in July 2020 and agreed that RHC investments should have the single objective of achieving real-terms growth over time.

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 2020 at £123,370k (2019 : £124,535k) (see also p9 above).

Investment property was also revalued by Savills at 31 March 2020. As a result investment property was valued at £67,830k (2019: £88,523K) at the year-end. The 2019 value included £20,700k for Gordon (Providence) House which was sold during the year (see above). Investment property is valued at a market value, which is calculated by the valuers taking into account local property values and the long leases which RHC has granted over the various

buildings. Due to the Covid pandemic and its impact on the property market the valuer advised that there is a material uncertainty about all property valuations.

Heritage Assets and exhibits were revalued on a retail replacement basis at 31 March 2020 by Gurr Johns, a firm of art advisers and valuers. The current value of Heritage Assets, including land and exhibits is £19,991K (2019: £18,467K).

Plant machinery and equipment has a net book value of £3,656k (2019: £3,284K) and vehicles have a net book value of £133k (2019: £130K).

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 £66K (2019: £65k) has been charged for the Hospital audit and is included in Governance costs. The charge for 2019 includes an under-accrual of £13k related to audit work carried out in 2018. No non-audit work was carried out by the auditor in 2019-20 or 2018-19. The cost of the audit of RHC's subsidiary companies was £17k (2019: £10k).

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 2019-20 financial year, is Mr Gary Lashko.

Going Concern

As noted above (p5) the Covid pandemic is expected to lead to financial losses of around £3.2m on the RHC' operations in 2020-21. These will be met from reserves. Steps are being taken to reduce costs so that a break even budget can be set for 2021-22. The RHC has a significant level of reserves and will continue to be a going concern and it is appropriate to draw up financial statements on that basis.

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

27 October 2020

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 is not a registered charity but its 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. It is treated as having charitable status for taxation purposes 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 2019-20 financial year was revised on 31 July 2018. The Chief Executive Officer of the RHC is the Accounting Officer, Mr Gary Lashko, who has held this post since 1 February 2016.

Hospital Accounting and reporting responsibilities

The RHC complies in all material respects with the guidelines laid down in the Charities SORP 2019 (FRS 102). 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 organisation at the year end, and of its incoming resources and application of resources for the financial year. As an arms-length body the RHC is not required to comply with the UK Government Financial Reporting Manual (FREM).

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 RHC 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 applicable 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 Board agreed a new Governance Handbook in 2018. The Handbook sets out the RHC's legal basis and governance structure.

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 Director of Engagement & Communications (formerly 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 ten Specially Appointed Commissioners 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.

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 – to 31 August 2019)
David Stephens Esq CBE - Director Resources and Command Secretary (Army) September 2019 – 30 April 2020
Charles Lewington Esq OBE (from 30 April 2019, Chair 1 September 2019 – 30 April 2020)
Colonel Paul Foster
Richard Clark Esq (to 30 April 2019)
Ms Caroline Trehitt (from 1 September 2019, Chair from 1 May 2020)
Dominic Fisher Esq OBE (from 1 May 2020)

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:

Dame Barbara Monroe DBE (Chair)
David Stephens Esq CBE - Director Resources and Command Secretary (Army)
Mrs Angela Gillibrand (to 31 August 2019)

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 one new Specially Appointed Commissioner joined the Board. This appointment replaced a Commissioner who completed her term of office in September 2019. 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 Secretary (Army)
Dame Barbara Monroe DBE (Chair – to 30 April 2019)
Dominic Fisher Esq OBE (Chair from 1 May 2019)
Ms Jo Cleary (from 30 April 2019)

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:

Charles Lewington Esq OBE (to 30 April 2019)
 Prof Charles Mackworth-Young (from 30 April 2019)
 Richard Clark Esq
 Dominic Fisher Esq OBE (Chair)

The Investment Committee met twice during the year under review. At each meeting they reviewed the performance of the RHC's investments and met with both managers to discuss progress.

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 (to 30 April 2020)
 Prof Charles Mackworth-Young
 Ms Jo Cleary
 Brigadier Tim Hodgetts

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 monitored the RHC's response to the pandemic and provided advice and support.

Estates Committee

The Estates Committee is made up of the following Commissioners:

Colonel Paul Foster (Chair)
 Charles Lewington Esq OBE (to 30 April 2020)
 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 Esq
 Quartermaster (Director of Facilities) – Lieutenant Colonel Nicky Mott MBE
 Director of Health and Wellbeing – Professor Deborah Sturdy OBE
 Finance Director - Nick Cattermole ACMA
 HR Director – Mark Taylor Esq
 Director of Public Engagement – Reverend 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 one dormant subsidiary companies which have been established to manage charitable and trading activities. A second dormant subsidiary was wound up during the year. 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 two wholly owned commercial trading subsidiaries being Chelsea Pensioner (RH) Ltd (company number 03853787), and Tricorne Traders Ltd (company number 07382655). Tricorne Traders Ltd is currently dormant. A third dormant subsidiary, RHC Prime Minister Scholars Ltd (Company number 07509639) was dissolved during the year. 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 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. Now that the sale has been completed this company will be dissolved.

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 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 2019-20 were RSM Risk Assurance Services LLP. RSM produced five reports during the year – these covered Business Continuity Planning (partial assurance), Fundraising (partial assurance), Pension Administration (partial assurance) Management of Capital Budgets and Expenditure (reasonable assurance), Supplier Changes (an advisory report) and a follow-up of recommendations made in previous reports (little progress). 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. Emerging risks are also considered. 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 considered were:

a The COVID 19 pandemic

As the pandemic developed in early 2020 the RHC developed a response plan to safeguard as far as possible against infection and to ensure that IPs could be isolated in their berths if and when infection was suspected. The site was locked down shortly before the national lockdown took effect and restrictions were not lifted until the end of June. During that period IPs were confined to the site and catering arrangements were changed to allow socially distancing at all meals. IPs deemed vulnerable, or isolating because of infection, were served all meals in their berths. The threat remains and plans are being continually refined to minimise the possibility of reinfection amongst the IP community and deal with it if it does occur.

b Financial

The RHC remains heavily dependent on its Grant in Aid for meeting day to day running costs. There are also financial risks arising from the Covid pandemic. The risk to Grant in Aid is mitigated both by maintaining strong, effective links to the Ministry of Defence and by increasing income from commercial activities. The risks arising from Covid have been mitigated through the use of reserves in 2020-21 and cost reductions which will enable a break even budget to be prepared for 2021-22. 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. This fund was valued at £20,879k at the year end (see note 25 page 51). 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.

c Internal Communications with staff and IPs

This risk was highlighted by the surveys of staff and IPs that were undertaken during the year. The survey suggested that staff believed that communication from management were not always clear and that many had reservations about raising grievances. Further work is being done on this including a communications audit by an independent consultant and a programme of meetings and consultations.

d Safeguarding of IPs and others

The RHC takes safeguarding risks extremely seriously and a Safeguarding Board, chaired by the Director of Health and Wellbeing, oversees these issues. All Commissioners and staff receive annual safeguarding training and are also subject to DBS checks, which are renewed every three years. Staff working in registered care are subject to enhanced DBS checks. The RHC's overall approach to safeguarding is the responsibility of the Health and Wellbeing Oversight Committee which reports regularly to the Board of Commissioners.

e Physical Security and Cyber Security

The Hospital is a high-profile national institution which is open to the public. In normal circumstances 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. New biometric security devices and CCTV systems were installed in 2019-20. 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 (e.g. 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.
- The continued impact of Covid which will lead to financial losses in 2020-21 and will require the RHC to review its strategy going forward. However this will not have an impact on the RHC as a going concern (see p 11 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; a further review was started in the Spring of 2020 but the work was delayed by Covid and the report is now expected later in the year.

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 discharged its responsibilities in an appropriate manner and has been provided with sound management information which has allowed it to carry out its duties to provide strategic guidance and oversight of the governance of the RHC. 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

27 October 2020

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 2020 under the Chelsea Hospital Act 1876. The financial statements comprise: the Consolidated and Charity Statements of Financial Activities, the Consolidated and Charity Balance Sheet, 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 2020 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.

Emphasis of matter – valuation of land and buildings and investment property

We draw attention to Note 1 f) to the financial statements, which describe the basis for valuing land and buildings and investment property. Management engaged an expert to value their land and buildings and investment property portfolio. The expert's valuation included a 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty and a higher degree of caution should be attached to management's valuation than would normally be the case. My opinion is not modified in respect of this matter.

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.

Conclusions relating to going concern

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the Royal Hospital Chelsea's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

- the Royal Hospital Chelsea have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Royal Hospital Chelsea's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Responsibilities of the Commissioners and Accounting Officer

As explained more fully in the Governance Statement, the Commissioners and the Accounting Officer are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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.
- 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.
- Conclude on the appropriateness of the Royal Hospital Chelsea'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 Royal Hospital Chelsea and group ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my 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 report. However, future events or conditions may cause Royal Hospital Chelsea and group to cease to continue as a going concern.

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, but does not include 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; and
- the information given in the Annual report of the Commissioners 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 in relation to 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 to be audited are not in agreement with the accounting records and returns; or
- the information given in the Annual Report of the Commissioners is inconsistent in any material respect with the financial statements; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Gareth Davies
Comptroller and Auditor General

4 November 2020

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

Consolidated Group Statement of Financial Activities for the year ended 31 March 2020

	Notes	Unrestricted 2020 £'000s	Restricted 2020 £'000s	Total 2020 £'000s	Total 2019 £'000s
Income and endowments from:					
Voluntary income – donations and legacies	2	797	390	1,187	1,206
Voluntary income – MOD Grant in Aid	5	12,695		12,695	12,235
Other trading activities – events and fundraising	3	4,342	–	4,342	4,309
Investment income	4	3,425	–	3,425	2,511
Other income	6	2,037	–	2,037	1,344
Total Income and Endowments		23,296	390	23,686	21,605
Expenditure on:					
Raising funds	7	1,584	360	1,944	1,624
Charitable activities					
Infirmity nursing and medical	7	7,631	–	7,631	7,098
Welfare and ceremonial	7	2,958	–	2,958	3,032
Facilities management	7	9,739	–	9,739	8,962
Other activities- investment management costs	7	256	–	256	205
Total Expenditure		22,168	360	22,528	20,921
Total movement		1,128	30	1,158	684
Net gains/(losses) on investments	12 & 13	(4,710)	–	(4,710)	2,238
Net income/(expenditure)		(3,582)	30	(3,552)	2,922
Other recognised gains/(losses)					
Gain/(loss) on revaluation of fixed assets	11	1,103	–	1,103	2,834
Actuarial gain/(loss) on defined benefit pension scheme	21	44	–	44	(27)
Net movement in funds		(2,435)	30	(2,405)	5,729
Reconciliation of funds					
Total funds brought forward	25	289,896	2,109	292,005	286,276
Transfers	25	(19,844)	19,844	–	–
Total funds carried forward		267,617	21,983	289,600	292,005

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

Statement of Financial Activities – Hospital for the year ended 31 March 2020

	Notes	Unrestricted 2020 £'000s	Restricted 2020 £'000s	Total 2020 £'000s	Total 2019 £'000s
Income and Endowments from:					
Voluntary income - donations and legacies	2	2,722	-	2,722	4,227
Voluntary income – MOD Grant In Aid	5	12,695	-	12,695	12,235
Investment income	4	3,421	-	3,421	2,500
Other income	6	1,830	-	1,830	1,344
Total Income and Endowments		20,668	-	20,668	20,306
Expenditure on:					
Raising funds		107	-	107	101
Charitable activities					
Infirmity nursing and medical	7	7,626	-	7,626	7,096
Welfare and ceremonial	7	2,318	-	2,318	2,485
Facilities management	7	9,450	-	9,450	8,659
Other activities – investment management costs	7	256	-	256	205
Total expenditure	7	19,757	-	19,757	18,546
Total movement		911	-	911	1,760
Net gain/(loss) on investments	12 & 13	(4,658)	-	(4,658)	2,186
Net income/(expenditure)		(3,747)	-	(3,747)	3,946
Other recognised gains/(losses)					
Gain/(loss) on revaluation of fixed assets	11	1,103	-	1,103	2,834
Actuarial gain/(loss) on defined benefit pension scheme	21	44	-	44	(27)
Net movement in funds		(2,600)	-	(2,600)	6,753
Reconciliation of funds					
Total funds brought forward	25	287,853	1,190	289,043	282,290
	25	(19,844)	19,844	-	-
Total funds carried forward		265,409	21,034	286,443	289,043

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

Balance Sheets as at 31 March 2020

	Notes	Hospital 2020 £000	Hospital 2019 Restated £000	Group 2020 £000	Group 2019 £000
Fixed Assets					
Heritage	11	19,991	18,467	19,991	18,467
Non heritage	11	126,893	127,315	126,919	127,349
Investment property	12	67,830	88,523	67,830	88,523
Listed Investments	13	70,329	57,597	69,912	57,232
		<u>285,043</u>	<u>291,902</u>	<u>284,652</u>	<u>291,571</u>
Current assets					
Stock	14	–	–	134	152
Debtors: falling due within one year	15	649	394	447	441
Cash at bank and in hand	16	5,280	835	7,933	3,221
		<u>5,929</u>	<u>1,229</u>	<u>8,514</u>	<u>3,814</u>
Current Liabilities					
Creditors: amounts falling due within one year	17	(4,209)	(3,713)	(3,246)	(3,005)
Net current assets/(liabilities)		<u>1,720</u>	<u>(2,484)</u>	<u>5,268</u>	<u>809</u>
Total assets less current liabilities					
Creditors: amounts falling due after one year	18	(124)	(111)	(124)	(111)
Net assets excluding pension liability		<u>286,639</u>	<u>289,307</u>	<u>289,796</u>	<u>292,269</u>
Defined benefit pension scheme liability	21	(196)	(264)	(196)	(264)
Net assets/(liabilities)		<u>286,443</u>	<u>289,043</u>	<u>289,600</u>	<u>292,005</u>
Unrestricted Funds					
Grant in Aid Fund	25	(10,563)	(8,513)	(10,563)	(8,513)
Prize Money and legacy funds					
General Reserves	25	261,602	282,909	261,602	282,909
Revaluation Reserve	25	12,826	11,723	12,826	11,723
Ranelagh & De la Fontaine Trust Capital	25	7	7	7	7
RHC Appeal Unrestricted	25	–	–	2,220	2,238
Gordon House (London) Limited	25	–	–	(12)	(195)
Total unrestricted		<u>263,872</u>	<u>286,126</u>	<u>266,080</u>	<u>288,169</u>
Restricted Income Funds					
RHC Appeal Restricted	25	–	–	949	919
Prize Money & Legacy Fund	25	21,034	1,190	21,034	1,190
Total restricted		<u>21,034</u>	<u>1,190</u>	<u>21,983</u>	<u>2,109</u>
Designated reserve – building maintenance	25	1,537	1,727	1,537	1,727
Total funds		<u>286,443</u>	<u>289,043</u>	<u>289,600</u>	<u>292,005</u>

Signed on behalf of the Board of Commissioners on 27 October 2020

Gen Sir Adrian Bradshaw KCB OBE DL
Governor/Chairman

Dame Barbara Monroe DBE
Deputy Chairman

Caroline Trehwitt
Chair of the Audit Committee

Consolidated Statement of Cash Flows for the year ended 31 March 2020

	Group 2020 £000	Group 2019 £000
Net cash provided by/(used in) operating activities	(399)	453
Cash flows from investing activities:		
Dividends, interest & rents from investments	1,140	649
Proceeds from the sale of investment property	21,496	8,500
Purchase of fixed assets	(1,525)	(1,674)
Proceeds from sale of investments	–	10,000
Purchase of investments	(16,000)	(21,508)
Net cash provided by/(used in) investing activities	<u>5,111</u>	<u>(4,033)</u>
Cash flows from financing activities	–	–
Change in cash and cash equivalents in the year	4,712	(3,580)
Cash and Cash equivalents at beginning of the year	<u>3,221</u>	<u>6,801</u>
Cash and Cash equivalents at the end of the year	<u>7,933</u>	<u>3,221</u>
Note 1		
Reconciliation of net income/(expenditure) to net cash flow from operating activities	2020 £000	2019 £000
Net income/(expenditure) for the year	(3,552)	2,922
Adjustments for		
Depreciation charges	1,534	1,451
(Gains)/losses on investments	4,710	(2,238)
Dividends, interest & rents from investments	(3,425)	(2,511)
(Increase)/decrease in stocks	18	(1)
(Increase)/Decrease in debtors	(6)	394
Increase/(decrease) in creditors	254	419
Movement on defined benefit pension scheme liability	68	2
Impairment of fixed asset	–	15
Net cash provided by/(used in) operating activities	<u>(399)</u>	<u>453</u>
Note 2		
Analysis of cash and cash equivalents	2020 £000	2019 £000
Cash at bank	<u>7,933</u>	<u>3,221</u>
Total cash and cash equivalents	<u>7,933</u>	<u>3,221</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 2019, applicable with UK accounting standard FRS102.

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 subsidiary, Tricorne Traders Ltd is dormant. Another dormant subsidiary, RHC (Prime Minister Scholars) Ltd, was dissolved during the year.

The Balance Sheet of the Hospital at 31 March 2019 was restated during the year to include the £1,500k of CPRH cash, which is held and invested by the Hospital, within the Hospital's fixed asset investments (see also notes 10 and 30).

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 Hospital and rounded to the nearest £000. They do not include a reconciliation of net debt as the RHC has no debt.

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. Where necessary estimates and judgments have been made that are considered to be reasonable and prudent on the basis of all information available. The most significant estimates relate to asset valuations and these have been made on the advice of professional valuers (see 1e below and notes 11 and 12).

b Going Concern

The RHC has a significant level of reserves which are sufficient to absorb the losses that are expected to arise in 2020-21 as a result of the Covid pandemic. Plans are in place to return the operational budget closer to a break even position in 2021-22 and there is no material uncertainty about the RHC's ability to continue and so the going concern basis is considered appropriate.

c Funds

Unrestricted funds are available for use at the discretion of the Commissioners in furtherance of the general objectives of the Hospital 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 Hospital 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. These funds are not endowments, they are donations for specific purposes.

d Incoming resources

All incoming resources are included in the Statement of Financial Activities (SoFA) when the Hospital 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 is recognised when entitlement has occurred.

Investment income is recognised when receivable and dividend and rent income is recognised as the Hospital's right to receive payment is established.

e 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.

f Tangible fixed assets

Freehold property: The RHC's operational land and buildings were revalued by Savills, an independent firm of chartered surveyors, at 31 March 2020. The Margaret Thatcher Infirmary building was valued on the basis of a market assessment, the valuers having advised that a market in modern care facilities exists in the area. The remainder of the operational estate was valued on the basis of a "modern equivalent," the valuers having advised that the unique and historic nature of the RHC and its buildings and the planning restrictions preventing development of the grounds meant that no meaningful market value could be arrived at. A "modern equivalent" valuation is an estimate of the cost of acquiring a modern facility that would enable the RHC to carry out its functions.

The operational estate is depreciated over its useful life as recommended by the 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 are capitalised at the year-end and depreciated from the start of the new financial year.

Impact of COVID-19 on property valuations

RHC's operational estate and investment property was revalued by Savills, RHC's expert valuers, as at 31 March 2020.

The COVID-19 pandemic has impacted market activity in many sectors. Therefore, in line with the advice provided by the RICS to Registered Valuers, Savills considered that they could attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to COVID-19 meant that they faced an unprecedented set of circumstances on which to base a judgement.

They therefore reported their valuation of land and buildings on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to the valuations than normally would be the case.

Red Book Global Standards defines material uncertainty as 'where the degree of uncertainty in a valuation falls outside any parameters that might normally be expected and accepted' (VPS 3.2.2. (o)). It also explains circumstances of material uncertainty to assist with the valuation process (with additional guidance in VPGA 10), but the decision to declare it remains with the independent valuer.

A key point is to ensure that those utilising these valuations are not misled. The inclusion of the "material valuation uncertainty" clause is not to be interpreted that the valuations cannot be relied upon. It is there to highlight that the valuations should be considered with a much greater degree of caution at this time and due to the above mentioned unforeseen natural event, COVID-19.

As at this date, the impact of COVID-19 is still not known and different sectors have reacted differently. In line with RICS guidance, Savills have assessed that the material uncertainty clause for the valuation as at 31 March is still applicable

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 Prize Money and Legacy Fund. Improvements and additions in periods between valuations are capitalised at historic cost. Depreciation is provided at rates calculated to write off the value of each asset over its expected useful life with the exception of freehold land, assets in course of construction and exhibits which are not depreciated. Depreciation rates are as follows:

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

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

Investment property: Investment properties are shown at their open market value. These properties were revalued by Savills, an independent chartered surveyor, at 31 March 2020.

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 on a retail replacement basis at 5-yearly intervals, the last full revaluation was in March 2017. The valuers were asked to review this valuation at 31 March 2020 and this resulted in a gain of £1,884k in the value of heritage assets.

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 Hospital and its subsidiaries £1,000 is deemed to be the appropriate capitalisation threshold.

g 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 Statement of Financial Activities

h Pensions

The nature of the RHC pension schemes are set out in Note 21. 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 21).

i 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.

j Operating leases

Rentals payable under operating leases are charged in the statement of financial activities on a straight-line basis over the lease term.

k Stock

Stock is held by Chelsea Pensioner (RH) 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

	Hospital 2020 Restricted £'000s	Hospital 2020 Unrestricted £'000s	Hospital 2020 Total £'000s	Hospital 2020 Total £'000s
Legacies and donations	<u>–</u>	<u>2,722</u>	<u>2,722</u>	<u>4,227</u>
	Group 2020 Restricted £'000s	Group 2020 Unrestricted £'000s	Group 2020 Total £'000s	Group 2020 Total £'000s
Legacies and donations	<u>390</u>	<u>797</u>	<u>1,187</u>	<u>1,206</u>

3 Other Trading Activities (all unrestricted)

	Hospital	Hospital	Group	Group
	2020	2019	2020	2019
	£'000s	£'000s	£'000s	£'000s
RHC Appeal Limited	<u>–</u>	<u>–</u>	<u>4,342</u>	<u>4,309</u>

4 Investment income (all unrestricted)

	Hospital	Hospital	Group	Group
	2020	2019	2020	2019
	£'000s	£'000s	£'000s	£'000s
Income on investment portfolio	2,494	2,029	2,494	2,029
Income on commercial property	478	459	478	459
Lease Extension Premiums	420	–	420	–
Bank and investment interest received	29	12	33	23
Total	<u>3,421</u>	<u>2,500</u>	<u>3,425</u>	<u>2,511</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 (all unrestricted)

	Charity	Charity	Group	Group
	2020	2019	2020	2019
	£000	£000	£000	£000
Grant in Aid received from the Ministry of Defence	<u>12,695</u>	<u>12,235</u>	<u>12,695</u>	<u>12,235</u>

6 Other income (all unrestricted)

	Hospital	Hospital	Group	Group
	2020	2019	2020	2019
	£'000s	£'000s	£'000s	£'000s
Staff accommodation charges	327	275	327	275
Family Practice	117	134	117	134
Food recoveries	41	43	41	43
Pension contributions (NHS)	110	110	110	110
In-Pensioner contributions	757	659	757	659
VAT Repayment (Partial Exp Claim)	410	–	410	–
Other income	68	123	275	123
Total	<u>1,830</u>	<u>1,344</u>	<u>2,037</u>	<u>1,344</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 £000	Infirmary nursing & medical £000	Welfare & ceremonial £000	Estate management £000	Support costs £000	Total 2020 £000	Total 2019 £000
Costs of generating voluntary income	862	-	459	234	-	1,555	1,301
Investment management costs	-	-	-	-	256	256	205
Staff costs	927	5,934	876	2,217	1,051	11,005	10,213
Other staff costs	-	27	15	1	64	107	161
Buildings and grounds maintenance costs	-	30	12	2,622	-	2,664	3,170
Information technology costs	-	-	17	-	219	236	211
In-pensioner living expenses	-	829	19	841	139	1,828	1,407
Catering costs	-	40	-	9	-	49	31
Council tax and rates	-	-	-	127	-	127	118
Security costs	-	-	-	-	741	741	777
Water, gas and electricity	-	-	-	671	-	671	663
Insurance	-	-	-	-	238	238	234
Audit fees	-	-	-	-	100	100	113
Surveyor fees	-	-	-	-	45	45	162
Consultancy fees	24	38	3	459	67	591	188
Legal fees	-	-	7	44	100	151	51
Office expenses	-	26	7	26	86	145	146
Other expenses	16	6	13	293	157	485	304
Depreciation	115	351	687	152	229	1,534	1,451
Impairment	-	-	-	-	-	-	15
Total before re-allocation of support costs	1,944	7,281	2,115	7,696	3,492	22,528	20,921
Re-allocation of support costs	-	350	843	2,299	(3,492)	-	-
Total expenditure	1,944	7,631	2,958	9,995	22,528	22,528	20,921

7 Total resources expended (Hospital)

	Raising Funds £000	Infirmity nursing & medical £000	Welfare & ceremonial £000	Estate management £000	Support costs £000	Total 2020 £000	Total 2019 £000
Investment management costs	-	-	-	-	256	256	205
Staff costs	-	5,934	710	2,217	1,051	9,912	9,235
Other staff costs	-	27	15	1	64	107	161
Buildings and grounds maintenance costs	-	30	12	2,616	24	2,682	3,194
Information technology costs	-	-	17	-	219	236	211
In-pensioner living expenses	-	829	19	841	139	1,828	1,407
Catering costs	-	40	-	9	-	49	32
Council tax and rates	-	-	-	127	-	127	118
Security costs	-	-	-	-	741	741	777
Water, gas and electricity	-	-	-	671	-	671	663
Insurance	-	-	-	-	238	238	233
Audit fees	-	-	-	-	83	83	98
Surveyor fees	-	-	-	-	43	43	162
Consultancy fees	-	38	3	459	67	567	164
Legal fees	-	-	7	44	52	103	31
Office expenses	-	26	7	26	86	145	147
Other expenses	-	6	13	267	157	443	256
Depreciation	107	351	687	152	229	1,526	1,437
Impairment	-	-	-	-	-	-	15
Impairment	-	-	-	-	-	-	15
Total before re-allocation of support costs	107	7,281	1,490	7,430	3,449	19,757	18,546
Re-allocation of support costs	-	345	828	2,276	(3,449)	-	-
Total expenditure	107	7,626	2,318	9,706	19,757	19,757	18,546

8 Staff costs and numbers

	Hospital	Hospital	Group	Group
	2020	2019	2020	2019
	£'000s	£'000s	£'000s	£'000s
Salaries and wages	7,202	6,852	7,981	7,597
Social security costs	710	668	786	738
Pension costs	1,579	1,166	1,770	1,303
Sub-total	9,491	8,686	10,537	9,638
Casual and agency pay	348	480	369	480
In-pensioner pay	74	70	99	95
Total	9,913	9,236	11,005	10,213

There were NIL payments in 2019-20 in respect of compensation for loss of office (2018-19: £91K).

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

	2020	2019
	Number	Number
Infirmery, nursing & welfare	102	100
Estates Management	141	137
Finance & Administration	7	7
Commercial services & fundraising	25	28
	275	272

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 2019 – 2020 (excluding pension contributions) was as follows:

Band	2020	2019
	Number	Number
£60,000 - £69,999	1	–
£70,000 - £79,999	–	–
£80,000 - £89,999	2	4
£90,000 - £99,999	2	1
£100,000 - £110,000	1	–
£120,000 - £129,000	1	1

Seven (2019: Six) of the above staff contribute to the PCSPS defined benefits pension scheme. Employer pension contributions for these staff were £198k (2019: £141k).

The total gross pay of six key management personnel was £556k (2019: £533k). Employers' pension contributions for key management personnel were £167k (2019: £131k).

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

	Actual salary 2020	Actual salary 2019	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 Adrian Bradshaw Governor (from 3rd Sept 2018)	65-70	35-40	-	-	-	-	-
Gary Lashko Esq Chief Executive	125-129	125-129	2.5-5	10-15	152	210	41

Payments of £10,693 were made to the CSP partnership scheme, a defined contribution pension scheme, on behalf of Gen Sir Adrian Bradshaw.

Commissioners' emoluments

None of the Commissioners received any remuneration for acting as Commissioners. Travel expenses of £192 (2019: £311) were claimed during the year by one (2019: one) Commissioner. The Governor is a Commissioner and receives a salary as an employee of the RHC.

9 Governance costs

	Charity 2020	Charity 2019	Group 2020	Group 2019
	£000	£000	£000	£000
External Audit fees*	**83	65	**100	75
Internal Audit Fees	46	34	46	34
Legal Fees	103	31	129	49
Consultancy fees	567	164	591	188
Bank charges	-	-	1	1
Total	<u>799</u>	<u>294</u>	<u>867</u>	<u>347</u>

*The Hospital figure relates to the NAO audit fee charge for the year ended 31 March 2020. The Group figure includes the fees for the audit of the subsidiaries.

** Includes £13k under-accrual from 2018-19

10 Subsidiary undertakings

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

RHC Appeal Ltd has two subsidiaries, Tricorne Traders Ltd (dormant) and Chelsea Pensioner (RH) Ltd.

i RHC Appeal Ltd

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

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

Its financial results for the year to 31 March 2020 were:-

Statement of Financial Activities	2020	2019
	£000	Restated £000
Income		
Donations & Legacies	1,187	1,206
Trading & other activities	4,342	4,309
Trading & other activities	2	11
Total Income	<u>5,531</u>	<u>5,526</u>
Expenditure		
Raising Funds	301	292
Gift aid donations	2,722	4,227
Trading & other costs	2,444	2,077
Total Expenditure	<u>5,467</u>	<u>6,596</u>
Net incoming/(outgoing) resources	64	(1,070)
Net funds at the beginning of the year	3,157	4,175
Prior year adjustment	(52)	-
Net funds at end of year	<u>3,169</u>	<u>3,105</u>
Balance Sheet	2020	2019
	£000	Restated £000
Tangible Assets	26	34
Current Assets	4,536	4,407
Current Liabilities	(1,393)	(1,338)
Net current assets	<u>3,143</u>	<u>3,069</u>
Total net assets	<u>3,169</u>	<u>3,103</u>
Unrestricted reserves	2,220	2,186
Restricted reserves	949	917
Total reserves	<u>3,169</u>	<u>3,103</u>

Prior Year Adjustment

The accounts of Chelsea Pensioner (RH) Ltd were restated during the year. Previously an amount of £1.5m of CPRH's cash that has been invested with the RHC group's other listed investments was shown as a fixed asset. This has now been reclassified as cash in group treasury and shown as a current asset. It is more appropriate for gains and losses arising on this investment to accrue to the parent. The balance sheet has been restated to transfer £1.5m from fixed assets to current assets.

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. The sale is now completed and the company will be wound up in 2020-21.

	2020	2019
	£000	£000
Profit and loss account		
Turnover	207	–
Administrative costs	(24)	(6)
Profit/(Loss) for the year	183	(6)
Profit & loss account brought forward	(195)	(189)
Profit & loss account carried forward	<u>(12)</u>	<u>(195)</u>
Balance sheet		
Current assets	<u>407</u>	<u>225</u>
Current liabilities	<u>(2)</u>	<u>(3)</u>
Net current assets & net assets	<u>405</u>	<u>222</u>
Share capital	417	417
Profit & loss account	<u>(12)</u>	<u>(195)</u>
Total capital & reserves	<u>405</u>	<u>222</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 accounts are consolidated into those of the RHCA Group shown at 10 i) above. Its financial results for the year to 31 March 2020 were-

Profit & Loss Account	2020	2019 Restated
	£000	£000
Cost of sales	4,342	4,309
Staffing and administrative costs	(434)	(443)
Other operating expenses	(1,239)	(1,218)
Turnover	(57)	(45)
Profit before interest and tax	2,612	2,603
Other gains : Bank interest receivable	-	8
Donation to RHC Appeal Limited	(2,607)	(2,611)
Tax on profit on ordinary activities	5	-
Profit/(loss) for the year	-	-
Profit & loss account brought forward	39	39
Profit & loss account carried forward	39	39
Balance Sheet	2020	2019 Restated
	£000	£000
Fixed assets (incl. Listed Investments)	19	24
Current assets	3,251	3,237
Current liabilities	(3,230)	(3,221)
Net current assets	21	16
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. Its accounts are consolidated into those of the RHCA group shown at 10 i) above.

v *RHC Prime Minister Scholars Ltd*

This company has never traded and was dissolved during the year.

11 Tangible fixed assets**Heritage and non heritage**

	Land and buildings	Plant, machinery & equipment	Vehicles	Exhibits	Group Total 2020	Group Total 2019
	£000	£000	£000	£000	£000	£000
Cost or valuation						
At 1 April	124,535	5,984	273	17,867	148,659	145,313
Additions at cost	791	712	22	–	1,525	1,674
Disposals	–	–	–	–	–	–
Impairment	–	–	–	–	–	(15)
Revaluation	(1,956)	–	–	1,884	(72)	1,687
At 31 March	<u>123,370</u>	<u>6,696</u>	<u>295</u>	<u>19,751</u>	<u>150,112</u>	<u>148,659</u>
Depreciation						
At 1 April	–	(2,700)	(143)	–	(2,843)	(2,539)
Depreciation charge for the year	(1,175)	(340)	(19)	–	(1,534)	(1,451)
Revaluation	1,175	–	–	–	1,175	1,147
At 31 March	<u>–</u>	<u>(3,040)</u>	<u>(162)</u>	<u>–</u>	<u>(3,202)</u>	<u>(2,843)</u>
Net book value						
At 1 April	124,535	3,284	130	17,867	145,816	142,774
At 31 March	<u>123,370</u>	<u>3,656</u>	<u>133</u>	<u>19,751</u>	<u>146,910</u>	<u>145,816</u>

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

Grant in Aid Fund		206	9	–	215	215
Prize Money and Legacy Fund	123,370	3,439	116	19,751	146,676	145,567
Subsidiaries	–	11	8	–	19	34
	<u>123,370</u>	<u>3,656</u>	<u>133</u>	<u>19,751</u>	<u>146,910</u>	<u>145,816</u>

Heritage

	Land and buildings	Plant, machinery & equipment	Vehicles	Exhibits	Group Total 2020	Group Total 2019
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
Cost or valuation						
At 1 April	600	-	-	17,867	18,467	18,437
Revaluation	(360)	-	-	1,884	1,524	30
At 31 March	<u>240</u>	<u>-</u>	<u>-</u>	<u>19,751</u>	<u>19,991</u>	<u>18,467</u>
Depreciation						
At 1 April	-	-	-	-	-	-
At 31 March	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net book value						
At 1 April	600	-	-	17,867	18,467	18,437
At 31 March	<u>240</u>	<u>-</u>	<u>-</u>	<u>19,751</u>	<u>19,991</u>	<u>18,467</u>

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

Prize Money and Legacy Fund	<u>240</u>	<u>-</u>	<u>-</u>	<u>19,751</u>	<u>19,991</u>	<u>18,467</u>
	<u>240</u>	<u>-</u>	<u>-</u>	<u>19,751</u>	<u>19,991</u>	<u>18,467</u>

Non heritage

	Land and buildings	Plant, machinery & equipment	Vehicles	Exhibits	Group Total 2020	Group Total 2019
	£000	£000	£000	£000	£000	£000
Cost or valuation						
At 1 April 2019	123,935	5,984	273	-	130,192	126,876
Additions at cost	791	712	22	-	1,525	1,674
Disposals	-	-	-	-	-	-
Impairment	-	-	-	-	-	(15)
Revaluation	(1,596)	-	-	-	(1,596)	1,657
	<u>123,130</u>	<u>6,696</u>	<u>295</u>	<u>-</u>	<u>130,121</u>	<u>130,192</u>
Depreciation						
At 1 April 2019	-	(2,700)	(143)	-	(2,843)	(2,539)
Depreciation charge for the year	(1,175)	(340)	(19)	-	(1,534)	(1,451)
Revaluation	1,175	-	-	-	1,175	1,147
At 31 March 2020	<u>-</u>	<u>(3,040)</u>	<u>(162)</u>	<u>-</u>	<u>(3,202)</u>	<u>(2,843)</u>
Net book value						
At 1 April	<u>123,935</u>	<u>3,284</u>	<u>130</u>	<u>-</u>	<u>127,349</u>	<u>124,337</u>
At 31 March	<u>123,130</u>	<u>3,656</u>	<u>133</u>	<u>-</u>	<u>126,919</u>	<u>127,349</u>

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

Grant in Aid Fund	-	206	9	-	215	215
Prize Money and Legacy Fund	123,130	3,439	116	-	126,685	127,100
Subsidiaries	-	11	8	-	19	34
	<u>123,130</u>	<u>3,656</u>	<u>133</u>	<u>-</u>	<u>126,919</u>	<u>127,349</u>

Separate disclosure of Hospital 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 2019 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 were updated by Savills at 31st March 2020. Savills' valuation included a "material valuation uncertainty" as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently less certainty and a higher degree of caution should be attached to the valuation than would normally be the case.

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 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. The surveyors advised that a "modern equivalent" valuation was the most appropriate basis for valuing most of the operational 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).

Heritage Assets

Heritage assets as defined under FRS 102 are valued every five years. The last valuation, by Gurr-Johns, was at 31 March 2020.

- a The RHC's heritage assets are principally composed of art and artefacts and it has a holding of 887 (2019: 887) such exhibits with a total value of £19,751k (2019: £17,867k). 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. There have been no acquisitions for at least the past five years.

The items currently held at valuation total £19,751k (2019: £17,867k). 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 2020 with a market value of £240,000. The valuers noted that there was a material uncertainty about all property valuations due to the Covid pandemic (see non-heritage assets above).
- 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. The RHC's policy is to conserve its heritage assets and make them available to visitors as far as possible consistent with the need to minimise disturbance to In Pensioners.

12 Investment property

	2020	2019
	£000	£000
Balance at 1 April	88,523	95,996
Disposal	(21,496)	(8,500)
Gain on revaluation	803	1,027
Balance at 31 March	<u>67,830</u>	<u>88,523</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 at 31 March 2020 (see also p10 & 30). Savills' valuation included a "material valuation uncertainty" as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently less certainty and a higher degree of caution should be attached to the valuation than would normally be the case.

13 Listed Investments

	Hospital 2020	Group 2020	Group 2019
	£000	£000	£000
Market value at 1 April (restated)	57,597	57,232	42,682
Additions at cost	16,000	16,000	21,508
Cost of investments sold	–	–	(8,040)
Income reinvested (accumulation)	2,305	2,305	1,831
Realised (gain)/loss	(112)	(112)	(1,960)
Unrealised gain/(loss)	<u>(5,461)</u>	<u>(5,513)</u>	<u>1,211</u>
Market value at 31 March	<u>70,329</u>	<u>69,912</u>	<u>57,232</u>
Historic cost at 1 April	49,444	50,527	35,604
Historic cost at 31 March	65,444	66,527	50,527

Investments are held in the Endowments Fund and the Income and Reserves Fund managed by Sarasin & Ptnrs LLP and also in the Armed Forces Common Investment Fund managed by BlackRock Fund Managers Ltd. The RHC's investment objective is to provide a growing annual income whilst preserving the real value of the capital over the long term. The investments are held 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. The value held in the Hospital at 1 April has been restated to include £1.5m of investments purchased with funds held on behalf of CPRH (see also notes 10 and 30).

14 Stock

	Hospital	Hospital	Group	Group
	2020	2019	2020	2019
	£000	£000	£000	£000
Shop and catering stocks	<u>-</u>	<u>-</u>	<u>134</u>	<u>152</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. There is no material difference between the Balance Sheet value of stock and its replacement cost.

15 Debtors: amounts falling due within one year

	Hospital	Hospital	Group	Group
	2020	2019	2020	2019
	£000	£000	£000	£000
Trade debtors	-	-	167	93
Prepayments and accrued income	238	175	251	297
Amounts due from subsidiary undertakings	382	168	-	-
Other debtors	29	51	29	51
Total	<u>649</u>	<u>394</u>	<u>447</u>	<u>441</u>

16 Cash at bank and in hand

	Hospital	Hospital	Group	Group
	2020	2019	2020	2019
	£000	£000	£000	£000
Cash at bank and cash equivalents	5,279	833	7,932	3,219
Cash in hand	1	2	1	2
Total	<u>5,280</u>	<u>835</u>	<u>7,933</u>	<u>3,221</u>

17 Creditors: amounts falling due within one year

	Hospital	Hospital	Group	Group
	2020	2019	2020	2019
	£000	Restated £000	£000	£000
Trade Creditors	1,341	-	61	150
Accruals and deferred income	241	227	1,163	1,224
Amounts due to subsidiary undertakings	1,976	1,878	-	-
Other creditors	651	1,608	2,022	1,631
Total	<u>4,209</u>	<u>3,713</u>	<u>3,246</u>	<u>3,005</u>

Movement on Deferred Income

	2020	2019
	£000	£000
Brought forward at the beginning of the year	997	1,039
Released to SOFA during the year	(997)	(1,039)
Deferred to future periods	922	997
Carried forward at the end of the year	<u>922</u>	<u>997</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

	Hospital	Hospital	Group	Group
	2020	2019	2020	2019
	£000	£000	£000	£000
Chapel music foundation	57	57	57	57
Chapel fund	11	11	11	11
Advance funeral payments	56	43	56	43
Total	<u>124</u>	<u>111</u>	<u>124</u>	<u>111</u>

19 Contingent liabilities

The RHC has no contingent liabilities.

20 Contingent assets

The RHC has no contingent assets.

21 Pensions

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

Principal Civil Service Pension Scheme (PCSPS)

Pension benefits for 220 (2019: 209) 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 2019-20, employers' contributions of £1,521,210 were payable to the PCSPS (2019: £1,075,829) at one of four rates in the range of 20.0% to 27.9% of pensionable pay, based on salary bands.

Contributions of £10,693 were payable to stakeholder schemes in 2019-20.

NHS Pension Scheme (NHSPS)

The RHC has 66 (2019: 68) 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 2019-20, employers' contributions of £238,305 were payable to the NHS Pension Scheme (2019: £233,789). 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 8 (2019: 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 £27,461 (2019: £33,783).

The latest FRS 102 valuation of the liabilities in respect of the unfunded pension entitlements was carried out as at 31 March 2020, 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	2020	2019
Price inflation/pension increase per annum	1.9%	2.1%
Discount rate per annum	2.3%	1.9%

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 (2019: 10 years).

The following table sets out as at 31 March 2020 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.

	2020	2019	2018	2017	2016
	£000	£000	£000	£000	£000
Defined benefit pension scheme liability	<u>196</u>	<u>264</u>	<u>266</u>	<u>334</u>	<u>329</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 £29,106 for 2020 (2019: £34,000).

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

	Year to 31 March	
	2020	2019
	£000	£000
Gross pension liability at the beginning of the year	264	266
Pensions paid	(29)	(34)
Interest cost	5	5
Actuarial (gain)/loss on defined benefit pension scheme	(44)	27
Gross pension liability at the end of the year	<u>196</u>	<u>264</u>

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

	Year to 31 March	
	2020	2019
	£000	£000
Interest on gross pension liability	<u>5</u>	<u>5</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 2020 is a loss/(gain) of (£44,000). [2019: loss of £27,000]. 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 £112,000 (2019: loss of £156,000).

22 Operating leases

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

	2020	2019
	£000	£000
Leases due to expire:-		
Within 1 year	15	12
Within 2-5 years	17	27
After more than 5 years	-	-

Amounts paid under operating leases during the year were £1,933 (2019 : £1,727).

23 Capital commitments

	2020	2019
	£000	£000
Authorised and contracted	2,276	511

The sum for 2020 consists of amounts budgeted for the Garages and Storage project (£1,827k) and the secondary glazing to the Long Wards (£449k), most of which is expected to be paid in 2020-21.

24 Losses and write offs

A total of £Nil (2019 : £91k) was paid in severance/termination payments during the year (see note 8). A loss of £11k (2019:Nil) arose from a fraudulent change made to a supplier's bank details in September 2019.

25 Movement in funds - Group

	Balance as at 1 April 2019	Incoming resources	Resources expended	Other gains/ (losses)	Transfers	Balance at 31 March 2020
	£000	£000	£000	£000	£000	£000
Unrestricted Funds						
Grant in Aid	(8,513)	12,695	(14,789)	44	-	(10,563)
Prize Money and Legacy Fund						
General reserve	282,909	5,252	(2,247)	(4,710)	(19,602)	261,602
Ranelagh & De La Fontaine Trust Capital	7	-	-	-	-	7
Revaluation Reserve	11,723	-	-	1,103	-	12,826
Gordon House London Limited	(195)	207	(24)	-	-	(12)
RHC Appeal Group Ltd	2,238	5,142	(5,108)	-	(52)	2,220
Total Unrestricted Funds	<u>288,169</u>	<u>23,296</u>	<u>(22,168)</u>	<u>(3,563)</u>	<u>(19,654)</u>	<u>266,080</u>
Restricted funds						
Prize Money and Legacy Fund						
Campbell Ward	7	-	-	-	-	7
Cadogan Donation	27	-	-	-	-	27
IP Activities	59	-	-	-	-	59
MTI fund	34	-	-	-	-	34
Garden & Allotments	28	-	-	-	-	28
Gordon House Fund	1,035	-	-	-	19,844	20,879
RHC Appeal Group Ltd	919	390	(360)	-	-	949
Total restricted funds	<u>2,109</u>	<u>390</u>	<u>(360)</u>	<u>-</u>	<u>19,844</u>	<u>21,983</u>
Designated reserve – building maintenance	1,727	-	-	-	(190)	1,537
Total funds	<u>292,005</u>	<u>23,686</u>	<u>(22,528)</u>	<u>(3,563)</u>	<u>-</u>	<u>289,600</u>

25 Movement in funds - Hospital

	Balance as at 1 April 2019	Incoming resources	Resources expended	Other gains/ (losses)	Transfers	Balance at 31 March 2020
	£000	£000	£000	£000	£000	£000
Unrestricted Funds						
Grant in Aid	(8,513)	12,695	(14,789)	44	-	(10,563)
Prize Money and Legacy Fund						
General reserve	282,909	7,973	(4,968)	(4,658)	(19,654)	261,602
Ranelagh & De La Fontaine Trust Capital	7	-	-	-	-	7
Revaluation Reserve	11,723	-	-	1,103	-	12,826
Total Unrestricted Funds	286,126	20,668	(19,757)	(3,511)	(19,654)	263,872
Restricted funds						
Prize Money and Legacy Fund						
Campbell Ward	7	-	-	-	-	7
Cadogan Donation	27	-	-	-	-	27
IP Activities	59	-	-	-	-	59
MTI fund	34	-	-	-	-	34
Garden & Allotments	28	-	-	-	-	28
Gordon House Fund	1,035	-	-	-	19,844	20,879
Total restricted funds	1,190	-	-	-	19,844	21,034
Designated reserve – building maintenance	1,727	-	-	-	(190)	1,537
Total funds	289,043	20,668	(19,757)	(3,511)	-	286,443

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. The RHC's unrestricted reserves are known as the "Prize Money and Legacy Fund." The origins of this name go back to at least the early 19th century but today it simply means unrestricted reserves generated from sources other than Grant in Aid income.

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 final payment for the sale of the lease was received during the year. It was invested with the other RHC funds managed by Sarasin and BlackRock (note 12) and the value of the fund at 31 March was transferred to the Gordon House Restricted Reserve (prior to the sale the property was shown as an investment in general reserves).

The *IP activities, Margaret Thatcher Infirmary and Garden and Allotments funds* represent funds donated for these specific purposes.

26 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:-

	Hospital	Hospital	Group	Group
	2020	2019	2020	2019
	£000	£000	£000	£000
Financial Assets				
Listed Investments	68,829	56,097	69,912	57,232
Cash held	5,280	835	7,933	3,221
Rent & other receivables	649	394	447	441
Total financial assets	<u>74,758</u>	<u>57,326</u>	<u>78,292</u>	<u>60,894</u>
Financial Liabilities				
Trade & other payables	<u>1,992</u>	1,608	<u>2,083</u>	1,631
Total financial liabilities	<u>1,992</u>	<u>1,608</u>	<u>2,083</u>	<u>1,631</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. There are currently enhanced market risks due to the Covid pandemic.

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.

27 Post balance sheet events

The COVID 19 pandemic began just before the Balance Sheet date. As such there was a minimal impact on the RHC's operating accounts for 2019-20 but there will be a significant impact in 2020-21. There is also a material uncertainty about the property valuations stated on the Balance Sheet. This is discussed in the Annual Report of the Commissioners on p10. The RHC's listed investments have recovered in line with market trends since the end of March and at the time of signing the Balance Sheet they were valued at £82.6m.

These accounts were authorised for issue on 04 November 2020.

28 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 2020.

29 Transactions With Subsidiary Companies

The RHC receives income from its subsidiary, the RHC Appeal Ltd group (which includes Chelsea Pensioner (RH) Ltd), and also makes charges to the subsidiary for management and other services. During the year income of £2,722k (2019: £4,227k) was received and charges of £1,081k (2019: £984k) were made. There were no transactions between RHC and Gordon House (London) Ltd in either 2019 or 2020.

30 Prior Year Adjustment

The Hospital's Balance Sheet at 31 March 2019 has been restated to show the investments acquired with funds held in behalf of CPRH as fixed asset investments. Previously these investments were shown in the books of CPRH and not those of the Hospital. A creditor to the group company has also been recognised in the Hospital Balance Sheet (see also notes 10 and 17). There is no impact on the reserves of the Hospital. In addition there is no impact on the Group. The effect of this restatement on the Hospital Balance Sheet is:-

	Balance as previously stated at 31 March 2019	Adjustment	Restated Balance
	£000	£000	£000
Fixed assets - Listed investments	56,097	1,500	57,597
Creditors : falling due within one year	(2,213)	(1,500)	(3,713)

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