

Presented pursuant to Chelsea Hospital Act 1876 (Acts 39 & 40 Vict.), c. 14, s. 1.

Royal Hospital Chelsea Account 2006-2007

ORDERED BY THE HOUSE OF COMMONS TO BE PRINTED 26 JULY 2007

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Officers and Commissioners

Chairman of the Board of Commissioners

HM Paymaster General

Ex-officio Commissioners

HM Paymaster General
Minister of State for the Armed Forces
Under Secretary of State for Defence and Minister for Veterans
The Governor, Royal Hospital Chelsea
Director General Resources Land Forces Command
Director General of Army Medical Services
Assistant Chief of the General Staff
Lieutenant Governor, Royal Hospital, Chelsea

Specially Appointed Commissioners

MD Drury CBE FSA
Mr RH Hunting
The Hon David McAlpine
Countess Cadogan MVO
G Flather OBE QC
R Moore (from 1 September 2006)
Lord Bilimoria CBE DL (from 1 September 2006)
Mrs Sarah Phillips OBE DL (from 1 September 2006)

Secretary and Accounting Officer

JM Legge CB CMG (to 19 February 2007)
PWD Hatt (from 19 February 2007)

Registered address

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

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National Audit Office
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London SW1W 9SP

Solicitors

Taylor Wessing
Carmelite
50 Victoria Embankment
Blackfriars
London EC4Y 0DX

Investment Managers

Newton Investment Management Limited (appointed 1 February 2006)
Mellon Financial Centre
160 Queen Victoria Street
London EC4V 4LA

Property Managers

Cordea Savills LLP
20 Grosvenor Hill
London W1K 3HQ

Bankers

Barclays Bank plc
Knightsbridge Business Centre
PO Box 32014
London NW1 2ZG

Works Consultants

Capita Symonds Limited
61-71 Victoria Street
Westminster
London SW1H 0XA

Annual Report of the Commissioners

Introduction

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

Governing documents and charitable objects

The statutory authority for the Royal Hospital is founded on Letters Patent from the Crown, which vests responsibility for its management in a Board of Commissioners. The current Letters Patent were issued on 23 November 2003. The Paymaster General is formally the Treasurer of the funds and Chairman of the Board of Commissioners who administer them, although in practice the Governor usually takes the chair.

Whilst care of the In-Pensioners remains the Royal Hospital's principal task, it is also responsible for the conservation of its historic buildings and grounds. The cost of major capital projects and the upkeep of the grounds is not met from the Grant in Aid, but paid out of the Army Prize Money and Legacy Fund, a private fund owned by the Commissioners. That fund also provides additional support to the In-Pensioners which could not reasonably be expected to come from public funds, e.g. subsidised holidays, a regular Battlefield tour, television services, etc.

The Royal Hospital provides 24-hour cover for 365 days of the year. The staff of the Royal Hospital number 257 full and part-time of whom 93 are medical and nursing staff.

An annual Grant in Aid from the Ministry of Defence provides for the maintenance of the Royal Hospital buildings and for meeting the cost of fuel and lighting, food, furniture, clothing, medical care for In-Pensioners, staff costs and certain payments to the In-Pensioners. In exchange, the In-Pensioners surrender their Army long service and/or their disability pensions when they are admitted to the Royal Hospital. The use to which the Grant in Aid fund is put is set out in detail in the notes to the Financial Statements.

Induction of Commissioners

The Commissioners of the Royal Hospital 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 and are subject to scrutiny under the Nolan guidelines.

On taking up their appointment, each Commissioner is provided with a pack of information describing the Royal Hospital, its structure, and how it is run, and the responsibilities of the Commissioners.

Organisational structure and decision making

The Royal Hospital is governed by the Board of Commissioners. The Board agrees the policies to be adopted in the running of the Hospital, approves the admittance of In-Pensioners and authorises all of the Royal Hospital's expenditure. It approves all expenditure on individual projects of over £250,000. The Board has a number of sub-committees: the Audit Committee, the Clinical Governance Committee, the Development Committee, the Investment Committee, and the Pay Committee. The operations of the Royal Hospital are conducted through the Management Board which is chaired by the Lieutenant Governor and attended by all of the departmental heads.

Monitoring of performance

The Commissioners review all aspects of the performance of the Royal Hospital at their quarterly meetings. At a working level the Management Board meets monthly and reviews performance against key performance indicators and targets.

Accounting and reporting responsibilities

The Commissioners 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 Hospital at the year end, and of its incoming resources and application of resources for the financial year.

In preparing the accounts the Hospital is required to

- apply suitable accounting policies on a consistent basis, taking account of the relevant accounting and disclosure requirements;
- make judgements and estimates on a reasonable and prudent basis;
- state whether applicable United Kingdom accounting standards are being followed, and disclose and explain any material departures in the financial statements; and
- prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the Hospital will continue in operation.

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

The Royal Hospital Chelsea follows closely the guidelines laid down in Charities SORP 2005.

Employees

Employees are kept well informed of the performance and objectives of the Royal Hospital through its Staff Consultation Group and regular staff bulletins. Employees are given the opportunity to develop and progress according to their ability.

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

Risk management

The Royal Hospital maintains a comprehensive risk register which is updated every six months and reviewed by the Audit Committee. It aims to cover a wide range of topics including fire, legal, health and safety, financial, mismanagement, and terrorism. There is also a business continuity plan should there be a catastrophic event such as a fire.

Factors outside the control of the Royal Hospital

During the years 2005 and 2006 the Royal Hospital's ability to start work on the new infirmary was held up by objections by a number of local interest groups. This had the effect of making changes to the external design and adding several million pounds to the estimated cost.

The Royal Hospital is also dependent on a Grant in Aid from the Ministry of Defence. Should this be significantly reduced, it would be unable to continue to provide the care that it was founded to provide.

Relationship with subsidiaries

The Commissioners form a majority of directors of the Boards of Chelsea Pensioner (RH) Limited, the Hospital's trading arm, and Royal Hospital Chelsea Appeal Limited, its holding company.

Aims, Objectives and Activities

The purpose of the Royal Hospital contained in its mission statement is to provide a fitting home and community for ageing or infirm veteran soldiers to whom the nation owes a debt of gratitude. Its long term objectives are set out in the Royal Hospital Corporate Plan and these are further amplified in the Royal Hospital Chelsea Management Plan.

In addition to the continuing care of the In-Pensioners, the Royal Hospital is planning a major modernisation programme including the building of a new infirmary and modernisation of the remaining living accommodation. The funds to pay for this are being raised through the Chelsea Pensioners' Appeal.

Significant structural changes are planned for the organisation of the Royal Hospital from the beginning of Financial Year 2007-2008 with a view to grouping activities and reducing the number of departments.

Principal activities of the year

Following the demolition of the Infirmary work started on the new Infirmary in October 2006. While this work continues Infirmary Residents are looked after either in the temporary infirmary or in the Long Wards with nursing assistance as required.

Volunteers

The Royal Hospital relies greatly on help from volunteers. Many are private individuals who visit the Infirmary, take In-Pensioners out for trips, and assist in accompanying In-Pensioners when they go to neighbouring hospitals. The Prince of Wales Hall tea shop is staffed by volunteers from the British Red Cross who provide an invaluable service. The friends' organisation called the Caroleans continues to develop with a view to assisting the Royal Hospital and its Pensioners. It has not been possible to put a value on the contribution of the Royal Hospital's volunteers as the number of hours they put in is not recorded, and many do not wish this to be counted in any case.

Review of achievements and performance for the year

Operational performance by department

Administration

During the year the administration department carried out central filing, postal and distribution, central ordering of stationery, control of the Souvenir Shop and booking of the recreational facilities. It is the interface with the local authority for property matters. It also processes applications for admission of In-Pensioners. The Head of Administration also maintains the Risk Register.

Chaplain

The Chaplain provides spiritual services to the Royal Hospital. The Chapel is an important venue for Sunday and weekday services, and its professional choir provides music for these and special occasions including memorial services. The Chapel is the focal point for Regimental Association services throughout the year as well as the annual RHC Concert Series held in October and November.

Finance

The finance department provides financial and management accountancy services for all Royal Hospital funds as well as company secretarial support for its limited companies. It operates the Royal Hospital's payrolls. The department receives all cash and makes all payments to suppliers. It provides treasury services for the funds of the Royal Hospital.

ICT

Notable achievements during the year include the opening of a second cyber café for the In-Pensioners with national exposure on TV and in the Press and the implementation of a new electronic Point of Sale system in the Souvenir Shop. Work in progress includes the implementation of an electronic staff rostering system and the development of a database system for the Development Office.

Adjutant

The Adjutant's department deals with the daily welfare and administration of the Chelsea Pensioners. It also runs the In-Pensioners' Club and the Prince of Wales Hall. During the year In-Pensioner levels have averaged 300 against a total capacity of 328. The Adjutant's department is responsible for the Founder's Day parade, controls the number of requests from external organisations for visits by In-Pensioners and provides contingents of Chelsea Pensioners for the Royal British Legion Remembrance Day Ceremony, the Edinburgh Military Tattoo and many other national parades, regimental functions and events.

Outpatients

The Outpatients department provides 'family practice' facilities for the In-Pensioners and resident staff as well as full time medical cover for the Infirmary. It also provides full time physiotherapy. Facilities such as dentistry, chiropody and ophthalmology are bought in.

Nursing Care

Nursing care is currently carried out in the temporary infirmary and the Long Wards. The temporary infirmary has a total capacity of 59 beds, considerably less than the one it replaces, and average occupancy has been 52 throughout the year. A number of In-Pensioners who would otherwise have been admitted as Infirmary Residents have remained in the Long Wards to ease overcrowding and will continue to do so until the new infirmary is built. They are looked after by nursing staff deployed to the Long Wards.

Notable achievements during the year have included a top rating in the CSCI inspection where all inspected standards were met and or exceeded. 85 per cent of Infirmery Care staff have now achieved nvq qualifications. This compares well with the national average of below 50 per cent.

Works

The Works department maintains all the fabric of the estate. Work on the replacement of the paving on the South Terrace was completed during the year. A resolution to the problem of disabled access to the Chapel and Great Hall by the provision of platform lifts is being pursued.

Quartermaster

The Quartermaster is responsible for the provision of stores and the provision of cleaning, portering and catering services. He is also the Royal Hospital's Health and Safety Officer.

The department fulfilled all of its tasks throughout the year without any significant highlights.

Grounds

A considerable amount of tree work was carried out during the year including the felling of badly diseased trees.

Development

The Director of Development has been responsible for coordinating the work of the agencies involved in the planning of the new infirmary as well as the modernisation of the Long Wards.

On 4 October 2006 Wates Construction Ltd was awarded the contract to build the New Infirmery. In addition, a survey was initiated for re-conversion of the Temporary Infirmery and modernisation of the Long Wards

Events

The Events Department coordinates the use of Royal Hospital facilities by outside users. It also arranges guided tours of the Royal Hospital. During the year it generated some £0.9 Million in income including the RHS Chelsea Flower Show.

Fundraising performance

Fundraising is carried out by the Appeal Executive Committee headed by Lord Salisbury. It has been set an ambitious target to raise £35 Million by 1 April 2008. In order to increase the administrative support to the committee the team was strengthened by a further 4 staff members funded from the Appeal.

Now that the building of the new Infirmery has started, two thirds of the £35 million target can now be accounted for, and we are already confident that sufficient funding to cover the cost of the new Infirmery will be available.

Financial review and results for the year

Financial review

Grant in Aid

All but the remaining cash balance of £12,000 of the Grant in Aid of £9,232,000 that was drawn down was expended; this was in accordance with the funding agreement with the Ministry of Defence.

The deficit of £488,000 shown as a carried forward reserve in the Grant in Aid fund is a result of the pension liability mentioned further on. Despite this, it is considered that funding remains secure for the foreseeable future and the fund is therefore a going concern.

Army Prize Money and Legacy Fund

Of the net movement in funds some £2,191,000 represented depreciation charges, of which £1,781,000 related to heritage assets.

The new infirmary is being paid for from the Army Prize Money and Legacy Fund, reimbursed from funds from the Chelsea Pensioners' Appeal, and appears on the balance sheet of the Army Prize Money and Legacy Fund. Some £2,906,000 representing preparatory costs is included in the accounts under assets in course of construction.

The Army Prize Money and Legacy Fund has sufficient cash and reserves to meet its commitments for the next year and is deemed to be a going concern.

Pension liability

Although the employees of the Royal Hospital are members of the Principal Civil Service Pension Scheme, 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 20 retired members (or their widows), and has been closed to new entrants. The scheme is a final salary scheme with benefits based on number of years' service and final salary. Under FRS 17 there is a liability of £467,000 attributable to the Grant in Aid fund (see note 29).

Reserves policy

The Grant in Aid is not permitted to hold any reserves. The Army Prize Money and Legacy Fund holds no specific reserves at present. Royal Hospital Chelsea Appeal Limited holds both restricted and unrestricted reserves. These are designated to the Development Project, £4.5 million of which is unrestricted, and £6 million of which is restricted to the new Infirmary. Chelsea Pensioner (RH) Limited holds no designated reserves.

Tangible fixed assets

The Hospital's operational land and buildings are stated at a professional valuation. In accordance with the Royal Institute of Chartered Surveyors guidance, the valuation basis is depreciated replacement cost. This basis is intended to measure the value to the Hospital of the assets in their present location, use and condition. The investment estate has been valued at £8.3 million on an open market basis while the operational estate has been valued at £309.2 million on a depreciated replacement cost basis. Of this, £300.1 million represents heritage assets, leaving a total of £9.1 million in non-heritage assets.

Investment policy and objectives

The Hospital's portfolios are managed by investment managers who have been given discretion to manage them by investing in equities and fixed interest securities, within benchmarks which are set and regularly reviewed by the Commissioners. The Commissioners also review the terms of engagement and levels of remuneration of the investment managers.

Over the long term, the Commissioners' policy is to optimise the total return from the investments. The Commissioners believe that this investment policy remains appropriate. Care has been taken to set aside funds that are readily accessible in case of any cash shortfall during the building of the new infirmary.

Plans for future periods

Development plans

The most significant plans affecting the Royal Hospital in the short term are the building of a new infirmary, currently under way and scheduled to be finished in late 2008, and the subsequent re-conversion of the temporary infirmary into Long Ward accommodation. Medium term plans concentrate on the modernisation of the Long Ward accommodation, little changed since the days of Sir Christopher Wren, to incorporate en-suite facilities and to cater for female In-Pensioners. Long term plans exist to develop the use of the Soane Stable Block as a visitors' centre, enabling a revision of accommodation for administrative and support services.

Audit Arrangements

The accounts of the Royal Hospital are audited by the Comptroller and Auditor General in accordance with the Letters Patent dated 23 November 2003 under Section 43 of the Charities Act 1993. An audit fee of £37,600 has been charged for the audit and is included in the Governance costs of the Hospital. No non-audit work was carried out on behalf of the Hospital in 2006-2007.

All relevant audit information has been disclosed to the entity's auditors.

Statement on Internal Control

Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of aims and objectives set by the Commissioners of the Royal Hospital Chelsea whilst safeguarding the public funds and assets for which I am personally responsible in accordance with a letter of delegation from the Permanent Secretary of the Ministry of Defence.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Royal Hospital's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively, and economically. The system of internal control has been in place in the Royal Hospital for the year ended 31 March 2007 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Capacity to handle risk

The Royal Hospital Chelsea has established the following processes to handle risk

- the maintenance and regular review of a business wide risk assessment register, with changes reported to the Audit Committee;
- publication of a detailed emergency response plan, embracing local authorities and agencies, in case of accident or disaster;
- the setting up of a chain of command with a control centre and incident control points equipped to handle physical disasters and accidents, with particular emphasis on response outside normal working hours;
- a business continuity plan; and
- regular Health and Safety reviews.

The risk control framework

- A Management Board meets monthly to consider the budgetary position, management planning and the strategic direction of the Royal Hospital (the Board comprises the Lieutenant Governor, the Secretary and the Heads of Department).
- Regular reports are made by internal auditors to standards defined in the Government Internal Audit Manual which include the Internal Auditors' independent opinion on the adequacy and effectiveness of the Royal Hospital Chelsea's system of internal control together with recommendations for improvement.
- Training of management including the avoidance of fraud includes regular staff study days.
- All staff are involved in training in the emergency response plan.
- Every department is required to have First Aid staff with up to date qualifications.
- Regular practice of emergency procedures takes place, including the involvement of the In-Pensioners.
- There is Regular Health and Safety training covering all aspects from fire fighting to the lifting of heavy objects. This is carried out under the auspices of the Royal Hospital's Health and Safety Officer.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and executive managers within the Royal Hospital who have responsibility for the development and maintenance of the internal control framework and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of effectiveness of the system of internal control by the Commissioners' Audit Committee and a plan to address weaknesses and ensure continuing improvement of the systems is in place. This process is carried out as follows.

- Periodic reports from the Chairman of the Audit Committee to the Board of Commissioners concerning internal control.
- Internal Audit reviews of internal control and risk management.
- Regular reviews by the Risk Manager for each risk area.
- Regular reports from heads of departments on the steps they are taking to manage risks in their areas of responsibility including action to be taken in the event of difficulties in delivering essential services.

PWD Hatt

26 July 2007

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

I certify that I have audited the financial statements of the Royal Hospital Chelsea for the year ended 31 March 2007 under the Chelsea Hospital Act 1876. These comprise the Consolidated Statement of Financial Activities, the Consolidated Balance Sheet and the Royal Hospital Chelsea Balance Sheet, the Consolidated Cash Flow Statement and the related Notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Commissioners, the Secretary and the Auditor

The Commissioners and the Secretary, as Accounting Officer, are responsible for preparing the Annual Report and the financial statements in accordance with the Chelsea Hospital Act 1876 and for ensuring the regularity of financial transactions.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and with International Standards on Auditing (UK and Ireland). I have been appointed as auditor by the Letters Patent dated 23 November 2003 under section 43 of the Charities Act 1993 and report in accordance with regulations made under section 44 of the Charities Act 1993.

I report to you my opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Chelsea Hospital Act 1876. I report to you whether, in my opinion, certain information given in the Annual Report, which includes a Review of Achievements for the Year and a Financial Review, is consistent with the financial statements. I also report whether in all material respects the expenditure, income and resources have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if the Royal Hospital Chelsea has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Royal Hospital Chelsea's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or form an opinion on the effectiveness of the Royal Hospital Chelsea's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Commissioners and the Secretary in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Royal Hospital Chelsea's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure, income and resources have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinions

In my opinion

- the financial statements give a true and fair view, in accordance with the Chelsea Hospital Act 1876, of the state of Royal Hospital Chelsea's affairs as at 31 March 2007 and of its incoming resources and application of resources for the year then ended;
- the financial statements have been properly prepared in accordance with the Chelsea Hospital Act 1876; and
- information given within the Annual Report, which includes the Review of Achievements for the Year and the Financial Review, is consistent with the financial statements.

Audit opinion on regularity

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

Report

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General

26 July 2007

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Consolidated Statement of Financial Activities for the year ended 31 March 2007

	Notes	Grant in Aid Fund Unrestricted Funds	Army Prize Money and Legacy Fund Unrestricted Funds	Subsidiaries Unrestricted Funds	Restricted Funds	Total Group Funds 2007	Prior Year Total Group Funds 2006
Incoming resources							
Incoming resources from generated funds							
Voluntary income	2	0	1,227,802	0	0	1,227,802	914,394
Activities for generating funds	3	0	22,937	0	0	22,937	27,784
Investment income	4	0	1,637,588	0	0	1,637,588	1,150,168
Charitable activities	5	9,232,000	0	6,132,021	2,300,000	17,664,021	12,169,875
Other incoming resources	6	1,036,301	3,220,364	0	0	4,256,665	1,671,361
Total incoming resources		<u>10,268,301</u>	<u>6,108,691</u>	<u>6,132,021</u>	<u>2,300,000</u>	<u>24,809,013</u>	<u>15,933,582</u>
Resources expended							
Costs of generating funds							
Costs of generating voluntary income	7	430,047	87,694	4,498,126	0	5,015,867	1,964,416
Fundraising trading: cost of goods sold and other costs	8	0	21,093	0	0	21,093	26,076
Investment management costs		0	54,835	0	0	54,835	32,723
<i>Charitable activities</i>							
Medical and outpatients	9	372,830	0	0	0	372,830	396,233
Nursing care	10	2,371,146	2,345	0	0	2,373,491	2,225,611
Welfare and ceremonial	11	957,831	167,123	0	0	1,124,954	1,055,548
Domestic support	12	2,874,134	92,756	0	0	2,966,890	2,897,066
Administrative support	13	1,428,763	213,135	0	0	1,641,898	1,595,918
Maintenance of grounds	14	238,933	141,704	0	0	380,637	544,614
Buildings maintenance	15	1,398,388	159,417	0	0	1,557,805	1,530,465
Development Projects	16	84,372	968	0	0	85,340	83,236
<i>Other resources expended</i>							
Depreciation	21	114,429	2,191,713	5,375	0	2,311,517	2,713,275
Governance costs	17	79,535	89,763	0	0	169,298	166,075
Total resources expended		<u>10,350,408</u>	<u>3,222,546</u>	<u>4,503,501</u>	<u>0</u>	<u>18,076,455</u>	<u>15,231,256</u>
Net incoming/outgoing resources before transfers		<u>(82,107)</u>	<u>2,886,145</u>	<u>1,628,520</u>	<u>2,300,000</u>	<u>6,732,558</u>	<u>702,326</u>

	Notes	Grant in Aid Fund Unrestricted Funds	Army Prize Money and Legacy Fund Unrestricted Funds	Subsidiaries Unrestricted Funds	Restricted Funds	Total Group Funds 2007	Prior Year Total Group Funds 2006
Transfers							
Gross transfers between funds	20	(95,217)	95,217	0	0	0	0
Net incoming/outgoing resources before other recognised gains and losses							
		(177,324)	2,981,362	1,628,520	2,300,000	6,732,558	702,326
<i>Other recognised gains/losses</i>							
Realised gains on disposal of listed investments		0	1,577,117	0	0	1,577,117	(11,790)
Realised loss on disposal of fixed assets		(3,694)	(1,746)	0	0	(5,440)	(5,621,893)
Unrealised gains/(losses) on investment assets	22	0	(1,257,100)	0	0	(1,257,100)	1,939,556
Actuarial gains/(losses) on defined benefit pension schemes	29	25,000	0	0	0	25,000	(19,000)
Net movement in funds		<u>(156,018)</u>	<u>3,299,633</u>	<u>1,628,520</u>	<u>2,300,000</u>	<u>7,072,135</u>	<u>(3,010,801)</u>
Reconciliation of funds							
Total funds brought forward		<u>(331,765)</u>	<u>329,159,835</u>	<u>2,869,542</u>	<u>4,000,000</u>	<u>335,697,612</u>	<u>338,708,413</u>
Total funds carried forward		<u>(487,783)</u>	<u>332,459,468</u>	<u>4,498,062</u>	<u>6,300,000</u>	<u>342,769,747</u>	<u>335,697,612</u>

All the Royal Hospital's activities are classed as continuing. All recognised gains and losses are included above.

Consolidated Balance Sheet as at 31 March 2007

	Notes	Total Group Funds		2006 £
		2007 £	£	
Fixed assets				
<i>Tangible assets</i>				
Heritage	21	300,135,766		301,894,850
Non-heritage	21	9,092,108		6,006,477
Listed investments	22	12,371,879		11,957,187
Investment property	23	8,287,000		8,287,000
		329,886,753		328,145,514
Current assets				
Stocks	24	95,061		107,349
Debtors	25	203,479		480,266
Cash at bank and in hand	26	15,105,679		9,481,290
Current asset investments		75,142		
		15,479,361		10,068,905
Creditors: amounts due falling within one year	27	(1,674,293)		(1,445,265)
Net current assets		13,805,068		8,623,640
Total assets less current liabilities		343,691,821		336,769,154
Creditors: amounts falling due over one year	28-30	(455,075)		(557,542)
Pensions liability	29	(467,000)		(514,000)
Total assets less liabilities		342,769,746		335,697,612
Reserves				
Grant in Aid Fund		(487,783)		(331,765)
<i>Army Prize Money and Legacy Fund: Hospital Funds</i>				
Restricted Funds		75,202		
Unrestricted Funds		332,384,266		329,159,835
<i>Funds retained in Royal Hospital Chelsea Appeal Ltd</i>				
Unrestricted		4,472,354		2,852,261
Restricted		6,300,000		4,000,000
Funds retained in Chelsea Pensioner (RH) Ltd		25,707		17,281
Consolidated Army Prize Money and Legacy Fund		343,257,529		336,029,377
Total reserves		342,769,746		335,697,612

Approved by the following three Commissioners on 26 July 2007

The Hon David McAlpin

RH Hunting

MD Drury CBE FSA

Royal Hospital Chelsea Balance Sheet as at 31 March 2007

	Notes	Grant in Aid Fund £	Army Prize Money and Legacy Fund £	Total Hospital Funds 2007 £	2006 Total Funds £
Fixed assets					
<i>Tangible assets</i>					
Heritage	21	0	300,135,766	300,135,766	301,894,850
Non-heritage	21	384,351	8,657,089	9,041,440	5,962,891
Listed investments	22	0	12,371,879	12,371,879	11,884,228
Investment property	23	0	8,287,000	8,287,000	8,287,000
		<u>384,351</u>	<u>329,451,734</u>	<u>329,836,085</u>	<u>328,028,969</u>
Current assets					
Stocks	24	58,109	6,000	64,109	86,092
Debtors	25	80,153	356,264	436,417	1,174,849
Cash at bank and in hand	26	12,040	3,729,234	3,741,274	1,528,070
		<u>150,302</u>	<u>4,091,498</u>	<u>4,241,800</u>	<u>2,789,011</u>
Creditors: amounts falling due within one year	27	(377,234)	(806,891)	(1,184,125)	(918,368)
Net current assets		(226,932)	3,284,607	3,057,675	1,870,642
Total assets less current liabilities		157,419	332,736,341	332,893,760	329,899,612
Long term creditors	28 - 30	(178,202)	(276,873)	(455,075)	(557,542)
Net assets excluding pension liability		(20,783)	332,459,468	332,438,685	329,342,070
Pension liability	29	(467,000)	0	(467,000)	(514,000)
Net assets including pension liability		<u>(487,783)</u>	<u>332,459,468</u>	<u>331,971,685</u>	<u>328,828,070</u>
Reserves					
Restricted funds		0	75,202	75,202	0
Unrestricted income funds					
Grant in Aid Fund		(487,783)	0	(487,783)	(331,765)
Army Prize and Legacy Fund		0	332,384,266	332,384,266	329,159,835
Total funds		<u>(487,783)</u>	<u>332,459,468</u>	<u>331,971,685</u>	<u>328,828,070</u>

Consolidated Cash Flow Statement for the year ended 31 March 2007

	Grant in Aid Fund	Army Prize Money and Legacy Fund	Total Group Funds	Total Funds 2006
	£	£	£	£
Net cash flow from operating activities	6,131	7,644,500	7,650,631	3,073,368
Returns on investment				
Interest received	12,615	134,692	147,307	69,278
Dividends received	0	377,524	377,524	395,156
Rent received from investment properties	0	1,260,064	1,260,064	755,012
	12,615	1,772,280	1,784,895	1,219,446
Payments to acquire listed investments	0	(12,011,997)	(12,011,997)	(1,914,173)
Receipts from sales of listed investments	0	11,844,363	11,844,363	1,704,344
Proceeds from sale of fixed assets	1,000	0	1,000	(6,247)
Payments to acquire tangible fixed assets	26,931	(3,671,434)	(3,644,503)	(2,836,950)
	27,931	(3,839,068)	(3,811,137)	(3,053,026)
Management of liquid resources	0	(2,300,000)	(2,300,000)	1,050,000
Increase/(decrease) in cash	46,677	3,277,712	3,324,389	2,289,788

Reconciliation of net incoming/(outgoing) resources to net cash flow from operating activities

	£	£	£	£
Net incoming/(outgoing) resources before transfers	(82,107)	6,814,665	6,732,558	689,984
Interest receivable	(12,615)	(134,692)	(147,307)	(69,278)
Income from listed investments	0	(377,524)	(377,524)	(395,156)
Income from Investment properties	0	(1,260,064)	(1,260,064)	(755,012)
Depreciation	114,429	2,197,088	2,311,517	2,713,275
(Increase)/decrease in stocks	22,983	(10,696)	12,287	30,881
(Increase)/decrease in debtors	199,713	77,074	276,787	(637,656)
Increase/(decrease) in creditors	(160,578)	287,137	126,559	1,504,540
Gain/(loss) on sale of fixed assets	(3,694)	(1,746)	(5,440)	0
Gain/(loss) on sale of investments	0	128,400	128,400	11,790
Decrease/(increase) in current asset investments	0	(75,142)	(75,142)	0
(Increase)/decrease in pension costs	(72,000)	0	(72,000)	(20,000)
Net cash flow from operating activities	6,131	7,644,500	7,650,631	3,073,368

Analysis of changes in net funds

	At 1 April 2006	Cash Flow	At 31 March 2007
	£	£	£
Term deposits (liquid resources)	1,000,000	2,300,000	3,300,000
Other accounts and cash in hand	8,481,290	3,324,389	11,805,679
Total	9,481,290	5,624,389	15,105,679

Notes to the Financial Statements for the year ended 31 March 2007

1 Accounting policies

a Basis of accounting

The financial statements have been prepared in accordance with applicable accounting standards, under the historical cost convention and comply with the Companies Act 1985. The financial statements have been prepared in accordance with *Accounting by Charities: Statement of Recommended Practice* (revised 2005) (the Charities SORP) issued in March 2005 and applicable United Kingdom Accounting Standards. Where appropriate, comparative figures have been restated.

Consolidated financial statements have been prepared for the Hospital and its two subsidiary companies, Royal Hospital Chelsea Appeal Limited, formerly named Chelsea Pensioners 2000 Limited, and Chelsea Pensioner (RH) Limited.

b Recognition of incoming resources

Voluntary income and donations are accounted for in the Statement of Financial Activities (SOFA) as they are received. Grant in Aid, rents and earned income are accounted for as they are receivable.

c Outgoing resources

Expenditure is allocated to expense headings on a direct cost basis. Any Value Added Tax (VAT) which is irrecoverable is included with the item to which it relates.

d Fund analysis

The primary statements and the notes to the accounts are analysed between the two main funds of the Hospital, the Grant in Aid Fund and the Army Prize Money and Legacy Fund, which subsumes the Drouly, Ingram, Ranelagh and De la Fontaine Legacies. In the consolidated statements, the transactions and balances of the subsidiaries are included in the Army Prize Money and Legacy Fund. In terms of the Charities SORP, all material funds are unrestricted with the exception of Royal Hospital Chelsea Appeal Limited, but separate analysis is included in the accounts statements.

e Tangible fixed assets

Freehold property is stated at valuation on a depreciated replacement cost basis. Valuations by independent professionally qualified valuers are obtained at five yearly intervals. Other tangible fixed assets are capitalised at their estimated depreciated replacement cost or at historic cost on acquisition. Since 2004 all new capital expenditure has been funded from the Army Prize Money and Legacy Fund. Improvements and additions in periods between valuations are capitalised at historic cost. Depreciation is provided at rates calculated to write off the value of each asset, except freehold land, assets in course of construction, and exhibits, over its expected useful life, as follows

Freehold buildings	over the remaining useful life as estimated by the valuer
Fixtures and fittings	5 - 10 years straight line
Plant and machinery	10 - 25 years straight line
Motor vehicles	10 - 15 years straight line
Office Equipment	7 - 10 years straight line
Computers	3 years straight line

f Heritage assets

New heritage assets are capitalised at cost upon acquisition. Existing heritage assets have not been capitalised.

g Investment properties

Investment properties are shown at their open market value. Valuations by independent professionally qualified valuers are obtained at five yearly intervals. No depreciation is charged on investment properties.

h Capitalisation thresholds

The lower limit for capitalisation of land and buildings is £10,000. For all other fixed assets it is £5,000.

i Listed investments

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

j Stocks

Stock is valued at the lower of cost and net realisable value. Provision is made for obsolete and slow moving items.

k Pensions

The nature of the Hospital's pension schemes are set out in note 29. The pension costs charged to the SOFA represent the contributions payable to the Schemes on behalf of members of staff.

l Taxation

The Hospital is recognised as charitable by the Inland Revenue and is generally exempt from Corporation Tax on surpluses and capital gains. The Hospital has de-registered for the purposes of VAT. Irrecoverable VAT is included in the SOFA with the item to which it relates.

m Payments

The Hospital aims to pay all invoices within 30 days of receipt, and this was achieved in the year ended 31 March 2007.

2 Voluntary income

	Grant in Aid Unrestricted funds	Army Prize Money and Legacy fund Unrestricted funds	Restricted funds	Total Group funds 2007	Prior year total group 2006
	£	£	£	£	£
Donations and legacies	0	1,227,802	0	1,227,802	914,394

Donations and legacies include £315,535 (2006: £140,177) received from the EH Dashwood Estate. The Hospital is entitled to 25 per cent of the net estate, which consists of property and equity investments. The trustees of the estate make periodic distributions to the beneficiaries from the net income of the estate's investments and the proceeds of investment sales. The Hospital is not provided with full information on the market value of its interest in the estate, and therefore accounts for this legacy on the basis of distributions received. The trustees of the estate have reported that its property assets had an estimated market value of £9 million as at April 2006. All donations are credited to the Army Prize Money and Legacy Fund.

3 Activities for generating funds

	Grant in Aid Unrestricted funds	Army Prize Money and Legacy fund Unrestricted funds	Restricted funds	Total group funds 2007	Prior year total group 2006
	£	£	£	£	£
Prince of Wales Hall	0	22,937	0	22,937	27,784

4 Investment Income

	Grant in Aid Unrestricted funds	Army Prize Money and Legacy fund Unrestricted funds	Restricted funds	Total group funds 2007	Prior year total group 2006
	£	£	£	£	£
Dividends for year	0	377,524	0	377,524	395,156
Income from property	0	1,260,064	0	1,260,064	755,012
Total	0	1,637,588	0	1,637,588	1,150,168

The Hospital owns the freehold of its investment properties and has granted head leases to various head tenants. The head tenants have in turn granted underleases to sub tenants.

Under the Leasehold Reform Housing and Urban Development Act 1993, tenants were given the right to extend their leases by ninety years. The Act specifies that a premium is payable for the granting of such extensions and gives details of how this is to be calculated. The amount of £1,260,064 shown as income from investment properties includes £1,047,039 paid to the Hospital in respect of such premiums (£538,215 in 2005-2006).

5 Charitable activities

	Grant in Aid Unrestricted funds	Army Prize Money and Legacy fund Unrestricted funds	Subsidiaries Unrestricted funds	Subsidiaries Restricted funds	Total group funds 2006	Prior year total group funds
	£	£	£	£	£	£
Grant in Aid	9,232,000	0	0	0	9,232,000	9,287,000
Income of subsidiaries	0	0	6,132,021	2,300,000	8,432,021	2,882,875
Total	9,232,000	0	6,132,021	2,300,000	17,664,021	12,169,875

There are no specific conditions on the Grant in Aid other than that it should be spent in accordance with the Crown Letters Patent and the Funding Agreement made with the Ministry of Defence.

6 Other incoming resources

	Grant in Aid Unrestricted funds	Army Prize Money and Legacy fund Unrestricted funds	Restricted funds	Total group funds 2007	Prior year total group 2006
	£	£	£	£	£
Post Office funding	17,597	0	0	17,597	17,714
Staff accommodation charges	215,612	0	0	215,612	210,167
Family practice	90,807	0	0	90,807	112,811
Meal charges	74,207	0	0	74,207	66,432
Events recoveries	18,040	0	0	18,040	10,607
Pension contributions	110,051	0	0	110,051	107,481
Bank interest	12,615	134,693	0	147,308	69,278
Other income	466,291	7,231	0	473,522	321,102
Recoveries from Appeal	31,081	3,078,440	0	3,109,521	755,769
Total	1,036,301	3,220,364	0	4,256,665	1,671,361

7 Costs of generating voluntary income

	Grant in Aid Unrestricted fund funds	Army Prize Money and and Legacy fund Unrestricted funds	Subsidiaries unrestricted funds	Total group funds 2007	Prior year total group 2006
	£	£	£	£	£
Staff costs	421,171	87,235	0	508,406	260,162
Support and training	1,498	0	0	1,498	582
Other costs	7,378	459	4,498,126	4,505,963	1,707,525
Total	430,047	87,694	4,498,126	5,015,867	1,968,269

This includes the costs of the Events Department attributable to non-commercial activities.
Also included under subsidiaries is £5,375 shown separately under the charges for depreciation.

8 Fundraising trading: costs of goods sold and other costs

The Hospital has two subsidiary companies.

Royal Hospital Chelsea Appeal Limited (formerly Chelsea Pensioners 2000 Limited)

The company is limited by guarantee and incorporated in England and Wales, and is a registered charity. It was formed in order to stage the son et lumière event 'Men in Scarlet', commemorating the story of the Chelsea Pensioners, which was held in September 2000 and to undertake other charitable activities associated with the Royal Hospital and, in particular, to undertake the fundraising for the Hospital's development plan. This company owns the shares of Chelsea Pensioner (RH) Ltd (below).

The Hospital controls the company because its rules require that the majority of the Board of Directors should be Commissioners of the Royal Hospital.

Chelsea Pensioner (RH) Limited

The company is limited by shares and is incorporated in England and Wales. Its share capital is wholly owned by Royal Hospital Chelsea Appeal Limited, and as a result it is also a subsidiary of the Hospital. It was formed in order to conduct non-charitable trading and commercial fund raising activities, including the Chelsea Flower Show.

The company's profits are transferred under gift aid rules to Royal Hospital Chelsea Appeal Limited, and ultimately from that company to the Hospital. A summary of the accounts is as follows.

RHC Appeal Ltd Group Accounts Summary

	2007 £	2006 £
Income	8,432,021	2,882,875
Expenditure	(4,503,501)	(1,701,750)
	3,928,520	1,181,125
Fixed assets	50,668	43,587
Stock	30,953	21,257
Debtors	67,620	61,185
Cash	11,364,405	7,953,221
Investments	75,142	72,959
	11,588,788	8,152,209
Creditors: less than one year	(790,726)	(1,282,667)
Funds retained in RHC Appeal Ltd	10,798,062	6,869,542
Reserves		
Restricted Funds	6,300,000	4,000,000
Unrestricted	4,498,062	2,869,542
	10,798,062	6,869,542

Prince of Wales Hall

	2007	2006
Turnover	22,937	27,784
Cost of sales	(21,093)	(25,855)
Gross profit	1,843	1,929
Administrative expenses	0	(222)
Other costs	0	0
Net profit/(loss)	1,843	1,707

9 Medical and outpatients

	Grant in Aid Unrestricted funds £	Army Prize Money and Legacy fund Unrestricted funds £	Restricted funds £	Total group funds 2007 £	Prior year total group (restated) 2006 £
Staff costs	293,515	0	0	293,515	292,277
Staff support and training	1,193	0	0	1,193	822
Direct expenses	67,091	0	0	67,091	89,638
Office overheads	3,104	0	0	3,104	1,284
Travel	2,427	0	0	2,427	3,667
Professional charges	5,500	0	0	5,500	8,545
Total	372,830	0	0	372,830	396,233

The above costs were incurred in the Outpatients department, and are met from the Grant in Aid Fund.

10 Nursing care

	Grant in Aid Unrestricted funds £	Army Prize Money and Legacy fund Unrestricted funds £	Restricted funds £	Total group funds 2007 £	Prior year total group 2006 £
Staff costs	2,328,099	0	0	2,328,099	2,185,449
Staff support and training	21,089	0	0	21,089	20,592
Direct expenses	13,157	2,345	0	15,502	10,052
Office overheads	7,592	0	0	7,592	7,510
Travel	1,209	0	0	1,209	845
Professional charges	0	0	0	0	1,163
Total	2,371,146	2,345	0	2,373,491	2,225,611

The above costs were incurred in the Matron's department in the infirmary wards, and include the support costs of porters and domestic staff.

11 Welfare and ceremonial costs

	Grant in Aid Unrestricted funds £	Army Prize Money and Legacy fund Unrestricted funds £	Restricted funds £	Total group funds 2007 £	Prior year total group 2006 £
Staff costs	871,077	0	0	871,077	840,247
Staff support and training	27,520	0	0	27,520	16,083
Direct expenses	317	84,126	0	84,443	165,937
Office overheads	6,461	0	0	6,461	1,219
Travel	16,056	82,997	0	99,053	13,284
Publicity	36,400	0	0	36,400	18,778
Professional charges	0	0	0	0	0
Total	957,831	167,123	0	1,124,954	1,055,548

The above costs, which are specifically related to In-Pensioner welfare, were incurred in both the Adjutant's and the Secretary's departments.

12 Domestic support costs

	Grant in Aid Unrestricted funds	Army Prize Money and Legacy fund Unrestricted funds	Restricted funds	Total group funds 2007	Prior year total group 2006
	£	£	£	£	£
Domestic support					
Staff costs	1,791,360	0	0	1,791,360	1,799,818
Staff support and training	4,167	0	0	4,167	9,591
Direct expenses	1,075,328	83,372	0	1,158,700	1,078,687
Office overheads	2,640	0	0	2,640	3,248
Travel	639	9,384	0	10,023	5,722
Total	2,874,134	92,756	0	2,966,890	2,897,066

The above costs were incurred in the Quartermaster's department. Included in direct expenses is an amount of £7,536 (£7,536: 2005-2006) in respect of an operating lease on the hire of a vehicle.

13 Administrative support costs

	Grant in Aid Unrestricted funds	Army Prize Money and Legacy fund Unrestricted funds	Restricted funds	Total group funds 2007	Prior year total group 2006
	£	£	£	£	£
Staff costs	943,400	0	0	943,400	939,471
Staff support and training	42,820	7	0	42,827	41,752
Direct expenses	334,732	192,543	0	527,275	479,917
Office overheads	66,216	1,440	0	67,656	57,883
Travel	12,770	3,177	0	15,947	15,405
Publicity	3,796	15,846	0	19,642	34,211
Bank charges	29	122	0	151	279
Pension finance costs	25,000	0	0	25,000	27,000
Total	1,428,763	213,135	0	1,641,898	1,595,918

The above costs were incurred in the Secretary's department. Included in direct expenses is an amount of £21,301 (2005-2006: £28,380) in respect of operating leases on the hire of photocopiers.

14 Grounds maintenance

	Grant in Aid Unrestricted funds £	Army Prize Money and Legacy fund Unrestricted funds £	Restricted funds £	Total group funds 2007 £	Prior year total group 2006 £
Staff costs	223,490	0	0	223,490	210,609
Staff support and training	15,443	317	0	15,760	920
Direct expenses	0	140,874	0	140,874	332,467
Office overheads	0	197	0	197	113
Travel	0	316	0	316	505
Total	238,933	141,704	0	380,637	544,614

The above costs were incurred in the Superintendent of Grounds' department.

15 Building maintenance and utilities

	Grant in Aid Unrestricted funds £	Army Prize Money and Legacy fund Unrestricted funds £	Restricted funds £	Total group funds 2006 £	Prior year total group 2005 £
Staff costs	615,161	0	0	615,161	600,446
Staff support and training	2,371	0	0	2,371	2,896
Direct expenses	438,616	5,410	0	444,026	362,677
Office overheads	7,087	0	0	7,087	584
Travel	0	0	0	0	5
Professional charges	14,069	0	0	14,069	33,659
Works maintenance	321,084	154,007	0	475,091	530,198
Total	1,398,388	159,417	0	1,557,805	1,530,465

The above costs were incurred by the Surveyor of Works' department. They exclude capital costs shown as additions to tangible fixed assets in note 21.

16 Development costs

	Grant in Aid Unrestricted funds £	Army Prize Money and Legacy fund Unrestricted funds £	Restricted funds £	Total group funds 2006 £	Prior year total group 2005 £
Staff costs	83,620	0	0	83,620	81,717
Staff support and training	0	0	0	0	0
Direct expenses	0	150	0	150	30
Office overheads	752	0	0	752	365
Travel	0	818	0	818	1,124
Professional charges	0	0	0	0	0
Total	84,372	968	0	85,340	83,236

The above costs were incurred in the Director of Development's department, set up during the year.

17 Governance costs

	Grant in Aid Unrestricted fund funds £	Army Prize Money and and Legacy fund Unrestricted funds £	Subsidiaries unrestricted funds £	Total group funds 2007 £	Prior year total group 2006 £
Audit fees	27,144	28,247	0	55,391	97,671
Surveyors' fees	0	0	0	0	0
Consultancy fees	41,284	14,690	0	55,974	15,006
Legal fees	11,107	46,826	0	57,933	53,398
Total	79,535	89,763	0	169,298	166,075

The actual fee including VAT charged by the National Audit Office for the audit of the Hospital's consolidated financial statements was £37,600 (2006: £30,550).

18 Staff costs and numbers; Commissioners' emoluments

	Grant in Aid Unrestricted funds £	Army Prize Money and and Legacy fund Unrestricted funds £	Money Restricted funds £	Total group funds 2007 £	Prior year total group 2006 £
Salaries and wages	5,579,096	70,233	217,283	5,866,612	5,462,387
Social security costs	430,341	5,045	17,600	452,986	425,013
Pension costs	923,333	11,957	43,793	979,083	890,235
	6,932,770	87,235	278,676	7,298,681	6,777,635
Casual and agency pay	279,968	0	0	279,968	353,244
In-Pensioner pay	79,479	0	0	79,479	79,256
	7,292,217	87,235	278,676	7,658,128	7,210,135

Staff costs are allocated to the Hospital's activities as follows

	2007	2006
Medical and outpatients	293,515	292,277
Nursing care	2,328,099	2,185,449
Welfare and ceremonial costs	871,077	840,247
Domestic support costs	1,791,360	1,799,818
Administrative support costs	885,037	881,231
Grounds maintenance	223,490	210,609
Buildings maintenance and utilities	615,161	600,446
Project management	83,620	81,717
Fundraising and publicity	508,406	260,162
Management and administration	58,363	58,179
	7,658,128	7,210,135

The average monthly number of staff by department was as follows:

	Part time	Full time	2007	2006
Infirmery and outpatients	1	5	6	7
Nursing	2	85	87	80
Adjutant	1	25	26	26
Quartermaster	6	63	69	72
Secretary	1	4	5	5
Chaplain	2	1	3	3
Finance	0	4	4	4
Chief clerk	3	6	9	8
Administration	1	2	3	4
Superintendent of grounds	1	8	9	10
Surveyor of works	0	22	22	21
Events	1	4	5	4
Fundraising	1	6	7	3
Development	0	2	2	2
	<u>20</u>	<u>237</u>	<u>257</u>	<u>249</u>

The Royal Hospital undertook a restructuring exercise in 2006-2007 as a result of which the number of cost centres was reduced from ten to seven. The restructuring resulted in two compulsory redundancies. Ex gratia compensation payments totalling £24,544 were made out of the Grant in Aid Fund. These payments were approved by the Ministry of Defence.

Higher paid employees

Excluding the Governor and Lieutenant Governor, the number of employees whose remuneration was over £60,000 per annum (excluding pension contributions) was as follows:

	2007 number	2006 number
£60,000 to £69,999	<u>1</u>	<u>0</u>
	<u>1</u>	<u>0</u>

Commissioners' emoluments

None of the Commissioners receive any remuneration for acting as Commissioners. No expenses were claimed during the year. The Governor and Lieutenant Governor are Commissioners, and receive salaries in return for their work as executives of the Royal Hospital Chelsea. The Governor and Lieutenant Governor are employed on the basis of a five year tour subject to current employment legislation. Former Governors and Lieutenant Governors receive pensions from an unfunded defined benefit scheme: these costs are included in note 29 – Unfunded Scheme.

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

	Age at the year end	Salary £000	Real increase in pension at 60 during the year £000	Total accrued pension at 60 at the year end £000	Cash equivalent transfer value at start date £000	Cash equivalent transfer value at end date £000	Real increase in cash equivalent transfer value £000
<i>General Sir Jeremy Mackenzie</i> Governor and the highest paid Commissioner (to October 2006)	66	75 – 80	0 – 2.5	5 – 10	138	147	9
<i>General The Lord Walker</i> Governor and the highest paid Commissioner (from October 2006)	62	70 – 75	0 – 2.5	0 – 2.5	0	12	10
<i>Major General APN Currie</i> Lieutenant Governor and Chief Executive (from 1 October 2005)	58	55 – 60	0 – 2.5	0 – 2.5	9	28	17

The benefits of the pension scheme are similar to the Principal Civil Service Pension Scheme. Benefits accrue at the rate of 1/80th of pensionable salary for each year of service. In addition a lump sum equivalent to 3 years' pension is payable on retirement.

19 Unrealised gains/(losses)

	2007 £	2006 £
Revaluation of listed investments	(1,257,100)	1,939,556
	(1,257,100)	1,939,556

20 Transfers between funds

Grant in Aid fund £	Army Prize Money and Legacy fund £
(95,217)	95,217

Transfers represent payments for capital items funded from the Grant in Aid, but affecting fixed assets belonging to the Army Prize Money and Legacy Fund. These include the fitting of the temporary infirmary.

21 Tangible fixed assets*Heritage assets*

	Assets in course of construction £	Land and buildings Dwelling £	Land and buildings Non-dwelling £	Plant, machinery and equipment £	Vehicles £	Exhibits £	Total £
Cost or valuation							
At 1 April 2006	0	270,073,607	39,137,505	0	0	0	309,211,112
Additions at cost	0	0	0	0	0	0	0
Reclassifications	0	11,027	11,337	0	0	0	22,364
Disposals	0	0	0	0	0	0	0
At 31 March 2007	0	270,084,634	39,148,842	0	0	0	309,233,476
Depreciation							
At 1 April 2006	0	4,834,992	2,481,270	0	0	0	7,316,262
Charge for year	0	1,157,558	623,891	0	0	0	1,781,449
Disposals in year	0	0	0	0	0	0	0
At 31 March 2007	0	5,992,550	3,105,161	0	0	0	9,097,711
Net book value							
At 1 April 2006	0	265,238,615	36,656,235	0	0	0	301,894,850
At 31 March 2007	0	264,092,085	36,043,681	0	0	0	300,135,766

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

Grant in Aid Fund	0	0	0	0	0	0	0
Army Prize Money and Legacy Fund	0	264,092,085	36,043,681	0	0	0	300,135,766
Subsidiaries	0	0	0	0	0	0	0
	0	264,092,085	36,043,681	0	0	0	300,135,766

Non-Heritage assets

	Assets in course of construction	Land and buildings Dwelling	Land and buildings Non- dwelling	Plant, machinery and equipment	Vehicles	Exhibits	Total
	£	£	£	£	£	£	£
Cost or valuation							
At 1 April 2006	2,248,561	1,670,860	1,117,755	2,499,038	157,109	55,555	7,748,878
Additions at cost	3,549,130	0	4,113	36,183	32,713	0	3,622,139
Reclassifications	(95,217)	0	95,217	0	0	0	0
Disposals	0	0	0	(21,590)	0	0	(21,590)
At 31 March 2007	<u>5,702,474</u>	<u>1,670,860</u>	<u>1,217,085</u>	<u>2,513,631</u>	<u>189,822</u>	<u>55,555</u>	<u>11,349,427</u>
Depreciation							
At 1 April 2006	0	732,400	58,182	889,361	62,458	0	1,742,401
Charge for year	0	265,887	37,218	215,357	11,606	0	530,068
Disposals in year	0	0	0	(15,151)	0	0	(15,151)
At 31 March 2007	<u>0</u>	<u>998,287</u>	<u>95,400</u>	<u>1,089,567</u>	<u>74,064</u>	<u>0</u>	<u>2,257,318</u>
Net book value							
At 1 April 2006	<u>2,248,561</u>	<u>938,462</u>	<u>1,059,573</u>	<u>1,609,676</u>	<u>94,650</u>	<u>55,555</u>	<u>6,006,477</u>
At 31 March 2007	<u>5,702,474</u>	<u>672,574</u>	<u>1,121,685</u>	<u>1,424,063</u>	<u>115,757</u>	<u>55,555</u>	<u>9,092,108</u>

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

Grant in Aid Fund	0	0	0	298,461	85,890	0	384,351
Army Prize Money and Legacy Fund	5,702,474	672,574	1,121,685	1,074,934	29,867	55,555	8,657,089
Subsidiaries	0	0	0	50,668	0	0	50,668
	<u>5,702,474</u>	<u>672,574</u>	<u>1,121,685</u>	<u>1,424,063</u>	<u>115,757</u>	<u>55,555</u>	<u>9,092,108</u>

Asset summary

	Assets in course of construction	Land and buildings Dwelling	Land and buildings Non- dwelling	Plant, machinery and equipment	Vehicles	Exhibits	Total
	£	£	£	£	£	£	£
Cost or valuation							
At 1 April 2006	2,248,561	271,744,467	40,255,260	2,499,038	157,109	55,555	316,595,990
Additions at cost	3,549,130	0	4,113	36,183	32,713	0	3,622,139
Reclassifications	(95,217)	11,027	106,554	0	0	0	22,364
Disposals	0	0	0	(21,590)	0	0	(21,590)
At 31 March 2007	<u>5,702,474</u>	<u>271,755,494</u>	<u>40,365,927</u>	<u>2,513,631</u>	<u>189,822</u>	<u>55,555</u>	<u>320,582,903</u>
Depreciation							
At 1 April 2006	0	5,567,392	2,539,452	889,361	62,458	0	9,058,663
Charge for year	0	1,423,445	661,109	215,357	11,606	0	2,311,517
Disposals in year	0	0	0	(15,151)	0	0	(15,151)
At 31 March 2007	<u>0</u>	<u>6,990,837</u>	<u>3,200,561</u>	<u>1,089,567</u>	<u>74,064</u>	<u>0</u>	<u>11,354,029</u>
Net book value							
At 1 April 2006	<u>2,248,561</u>	<u>266,177,077</u>	<u>37,715,808</u>	<u>1,609,676</u>	<u>94,650</u>	<u>55,555</u>	<u>307,901,327</u>
At 31 March 2007	<u>5,702,474</u>	<u>264,764,659</u>	<u>37,165,366</u>	<u>1,424,063</u>	<u>115,757</u>	<u>55,555</u>	<u>309,228,874</u>

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

Grant in Aid Fund	0	0	0	298,461	85,890	0	384,351
Army Prize Money and Legacy Fund	5,702,474	264,764,659	37,165,366	1,074,934	29,867	55,555	308,792,855
Subsidiaries	0	0	0	50,668	0	0	50,668
	<u>5,702,474</u>	<u>264,764,659</u>	<u>37,165,366</u>	<u>1,424,063</u>	<u>115,757</u>	<u>55,555</u>	<u>309,227,874</u>

The Hospital's freehold land and buildings were valued by Cordea Savills as at 1 April 2002 on the depreciated replacement cost basis, in accordance with RICS guidance.

22 Listed investments

	2007 £	2006 £
Market value at 1 April 2006	11,884,228	9,805,934
Additions at cost	12,011,997	1,854,871
Cost of investments sold	(10,267,246)	(1,716,133)
Unrealised revaluation gain/(loss)	(1,257,100)	1,939,556
Market value at 31 March 2007	12,371,879	11,884,228
Historical cost at 1 April 2006	9,748,653	9,609,915
Historical cost at 31 March 2007	11,493,404	9,748,653

Included in the market value at 31 March 2007 is the capital project deposit account of £2,071,747.

23 Investment property

	2007 £	2006 £
Freehold land and buildings at valuation	8,287,000	8,287,000

The Hospital's freehold investment property was valued by Cordea Savills as at 1 April 2002 on the open market value basis, in accordance with RICS guidance. All investment properties belong to the Army Prize Money and Legacy Fund.

24 Stocks

	Grant in Aid fund £	Army Prize Money and Legacy fund £	Hospital Funds £	Subsidiaries £	Total funds 2007 £	Total funds 2006 £
Trading stocks	0	0	0	30,952	30,952	21,257
Consumable stores						
Superintendent of grounds	0	6,000	6,000	0	6,000	5,000
Quartermaster	57,215	0	57,215	0	57,215	80,152
Surveyor of Works	894	0	894	0	894	940
Total	58,109	6,000	64,109	30,952	95,061	107,349

25 Debtors

	Grant in Aid fund £	Army Prize Money and Legacy fund £	Hospital Funds £	Subsidiaries £	Total funds 2007 £	Total funds 2006 £
Sundry debtors	53,861	8,546	62,407	67,620	130,027	163,221
Prepayments	26,292	347,718	374,010	0	374,010	1,003,707
Accrued income	0	0	0	0	0	69,106
Total	80,153	356,264	436,417	67,620	504,037	1,236,034

There were intra-group debtors of £300,558 (2005-2006 – £755,768) at 31 March 2007

26 Cash at bank and in hand

	Grant in Aid fund £	Army Prize Money and Legacy fund £	Hospital Funds £	Subsidiaries £	Total funds 2007 £	Total funds 2006 £
Term deposits	0	3,300,000	3,300,000	0	3,300,000	1,000,000
Other accounts and cash in hand	12,040	429,234	441,274	11,364,405	11,805,679	8,481,290
	12,040	3,729,234	3,741,274	11,364,405	15,105,679	9,481,290

27 Creditors: amounts falling due within one year

	Grant in Aid fund £	Army Prize Money and Legacy fund £	Hospital Funds £	Subsidiaries £	Total funds 2007 £	Total funds 2006 £
Sundry creditors	0	4,000	4,000	790,726	794,726	1,339,447
Accrued charges	0	746,397	746,397	0	746,397	569,127
Deferred income	0	0	0	0	0	4,530
Tax creditors	69,734	0	69,734	0	69,734	0
Finance lease	46,488	0	46,488	0	46,488	0
Other creditors	261,012	56,494	317,506	0	317,506	287,931
	<u>377,234</u>	<u>806,891</u>	<u>1,184,125</u>	<u>790,726</u>	<u>1,974,851</u>	<u>2,201,035</u>

There were intra-group creditors of £300,558 (2005-2006 – £755,768) at 31 March 2007.

28 Related party transactions

Creditors falling due in over one year represents a balance in the Army Prize Money and Legacy Fund of £276,873 (2006: £286,364) of which £201,671 are funds held by the Hospital on behalf of the In-Pensioners' Club, and the remaining £75,202 relates to the Royal Hospital Chapel and is covered in note 33 below. The Club is an independent unincorporated association, managed by the In-Pensioners to provide social and welfare activities for them. The Club placed £250,000 with the Hospital on 1 September 1999, in exchange for which the Hospital agreed to meet certain of the Club's costs. These costs amounted to £20,771 in 2006-2007, and the Hospital estimates that they will be approximately £15,000 in 2007-2008.

The President of the Club is the Adjutant of the Royal Hospital, and the Vice President and officers of the Club are drawn from the Adjutant's staff and the In-Pensioners.

The Governor is Chairman of the Army Benevolent Fund. Transactions with the Army Benevolent Fund during the year amounted to £3,370 (2006: £5,489) in respect of provision of facilities.

29 Pensions

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

Principal Civil Service Pension Scheme (PCSPS)

Pension benefits for 171 members of staff are provided through the Civil Service pensions arrangements. From 1 October 2002, civil servants may be in one of three statutory based 'final salary' defined benefit schemes (classic, premium, and classic plus). Under the new arrangements, new entrants after 1 October 2002 were not able to join the existing PCSPS, which has been renamed 'classic' and has become a closed scheme. Existing members of the PCSPS were given the option of remaining within 'classic'; electing to transfer to 'premium', the new defined benefits scheme; or choosing 'classic plus', whereby they transferred to 'premium' but only in respect of service after 1 October 2002. New entrants after 1 October 2002 have been able to choose between membership of 'premium' or joining a good quality 'money purchase' stakeholder based arrangement with a significant employer contribution (partnership pension account).

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but the Royal Hospital Chelsea is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 2003. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk)

The defined benefit elements of the schemes are unfunded and are non-contributory except in respect of dependent's benefits. The Royal Hospital Chelsea recognises the expected costs of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the Principal Civil Service Pension Scheme (PCSPS) of amounts calculated on an accruing basis. Liability for payment of future pension benefits is a charge on the PCSPS. In respect of the defined contribution elements of the schemes, the Royal Hospital Chelsea recognises the contributions payable for the year.

For 2006-2007, employers' contributions of £750,551 were payable to the PCSPS (2005-2006 £688,761) at one of four rates in the range of 17.1 to 25.5 per cent of pensionable pay, based on salary bands. Employer contributions are to be reviewed every four years following a full scheme valuation by the Government Actuary. Rates will remain the same next year subject to revalorisation of the salary bands. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

National Health Service Pension Scheme (NHSPS)

The Hospital participates in the NHS pension scheme which is an unfunded multi-employer defined benefit scheme, but the Hospital is unable to identify its share of the underlying assets and liabilities. The scheme is subject to a full valuation every four years. The last valuation took place as at 31 March 2003. 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.nhs.gov.uk. This is a statutory, defined benefit scheme, the provisions of which are contained in the NHS Pension Scheme Regulations (SI 1995 No. 300). Under these regulations the Hospital is required to pay an employer's contribution, currently 14 per cent of pensionable pay, as specified by the Secretary of State for Health. For 2006-2007, employers' contributions of £220,391 were payable to the NHS Pension Scheme (£189,697 for 2005-2006). These contributions are charged to operating expenses as and when they become due.

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

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

Unfunded Scheme

Former Governors, Lieutenant Governors and Captains of Invalids are members of an unfunded defined benefit scheme. The scheme has 18 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 £47,798 (2006: £46,853).

Financial Reporting Standard 17 (FRS 17) – Retirement Benefits

The latest FRS17 valuation of the liabilities in respect of the unfunded pension entitlements was carried out as at 31 March 2007, by an independent qualified actuary, using the key FRS17 assumptions set out in the following table. The table also sets out as at 31 March 2006 and 31 March 2007 the present value of the FRS17 liabilities, which is equal to the gross pension liability.

Assumptions	31 March 2007	31 March 2006
Price inflation	3.0% pa	3.0% pa
Pension increases	3.0% pa	3.0% pa
Discount rate	5.8% pa	5.0% pa

Balance sheet (£'000)	31 March 2007	31 March 2006
Gross pension liability	467	514

The gross pension liability under FRS17 moved as follows during the year:

	Year to 31 March 2007 £000	Year to 31 March 2006 £000
Gross Pension liability at year start	514	515
Current service cost	0	0
Pensions paid	(47)	(47)
Pensions finance costs/(income)	25	27
Actuarial loss (gain) on defined benefit pension scheme	(25)	19
Gross pension liability at year end	467	514

The following amounts have been included within operating profit under FRS17 and have been allocated across the 'resources expended' categories of the SOFA

	Year to 31 March 2007 £000	Year to 31 March 2006 £000
Current service cost	0	0
Past service cost	0	0
Total operating charge	0	0

The following amounts have been included as a charge to pension finance costs and have been allocated across the 'resources expended' categories of the SOFA

	Year to 31 March 2007 £000	Year to 31 March 2006 £000
Interest on gross pension liability	25	27

The following amounts have been recognised within the 'other recognised gains/losses' categories of the SOFA under the heading 'actuarial gains and losses on defined benefit pension scheme'

	Year to 31 March 2007 £000	Year to 31 March 2006 £000
Experience gains and (losses) arising on liabilities	(2)	2
Gain or (loss) due to changes in assumptions underlying the present value of liabilities	27	(21)
Actuarial gain/(loss) recognised in the SOFA	25	(19)

The history of gains and losses is as follows

	Year to 31 March 2007 £000	Year to 31 March 2006 £000
Experience gains/(losses) on liabilities (£'000)	(2)	2
Percentage of the present value of liabilities	0%	0%
Total amount of gains and losses (£'000)	25	(19)
Percentage of the present value of liabilities	5%	(4%)

30 Financing lease

Grant in Aid creditors falling due in over one year represent the remaining liability on a financing lease on the laundry operation. Details are as follows

	2007 £	2006 £
Two to five years	178,202	224,690
Total	178,202	224,690

31 Operating leases

Rentals payable under operating leases are charged to the Statement of Financial Activities as incurred over the term of the lease.

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

	Land and buildings 2007 £	Other 2007 £	Land and buildings 2006 £	Other 2006 £
<i>Operating leases which expire</i>				
Within one year	0	0	0	0
In the second to fifth years inclusive	0	29,712	0	0
Over five years	0	0	0	0

32 Capital commitments

	2007 £	2006 £
Authorised and contracted	20,291,146	708,482
	20,291,146	708,482

The increase is due to the building of the New Infirmary.

33 Restricted funds

a Army Prize Money and Legacy Fund

The sum of £75,202 is held as a restricted fund on behalf of the Royal Hospital Chelsea Chapel fund.

b Subsidiaries

Chelsea Pensioner (RH) Limited

This company holds a low level of reserves and has no restricted funds. Most of its profits are paid directly to Royal Hospital Appeal Limited under the gift aid rules.

Royal Hospital Chelsea Appeal Limited

This company held restricted funds amounting to £6,300,000 intended for use in funding building work as part of the redevelopment plan of the Royal Hospital.

34 Derivatives and other financial instruments

FRS 13, Derivatives and Other Financial Instruments, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities.

The Royal Hospital derives a significant proportion of its income from quoted investments. These are managed on the Hospital's behalf by professional fund managers. An independent Advisory Panel is appointed to formulate the Hospital's investment policy and to monitor its implementation, with the objective of safeguarding the Hospital's investment assets and of maximising total return from them.

During 2006-2007 the fund managers were required to perform against a number of benchmark indices. In aggregate the fund is compared on a total return basis with the FT All-Share Index, the FT All Stock Index, Cash Deposit and Wood MacKenzie Unconstrained (ex-Property) Charities Benchmark.

Interest rate risk

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

Currency risk

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

Market price risk

The Hospital has exposure to changes in market prices through its holding in UK and global equities and bonds.

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

35 Post balance sheet events

There were no post balance sheet events.

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