

Presented to Parliament pursuant to Section 1 of the Chelsea Hospital Act 1876

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# Royal Hospital Chelsea Account 2010-2011

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# Royal Hospital Chelsea Account 2010-2011

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The National Audit Office scrutinises public spending on behalf of Parliament.

The Comptroller and Auditor General, Amyas Morse,  
is an Officer of the House of Commons.  
He is the head of the NAO, which employs some 880 staff.  
He and the NAO are totally independent of government.

He certifies the accounts of all government departments  
and a wide range of other public sector bodies;  
and he has statutory authority to report to Parliament  
on the economy, efficiency and effectiveness with which departments  
and other bodies have used their resources.

Our work led to savings and other efficiency gains worth more than £1 billion in 2010-11.

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## Officers and Commissioners

### **Chairman of the Board of Commissioners**

HM Paymaster General

### **Ex-officio Commissioners (as at 31 March 2011)**

HM Paymaster General – Rt Hon Francis Maude MP

Minister of State for the Armed Forces – Hon Nicholas Harvey Esq MP

Under Secretary of State for Defence and Minister for Veterans – Rt Hon Andrew Robathan Esq MP

The Governor, Royal Hospital Chelsea – General the Lord Walker GCB CMG CBE DL (resigned 15 February 2011)

Director General Resources Land Forces Command – David Stephens Esq

Director General of Army Medical Services – Major General M von-Bertele OBE QHS

Assistant Chief of the General Staff – Major General R Barrons CBE

Lieutenant Governor, Royal Hospital Chelsea – Major General APN Currie CB

### **Specially Appointed Commissioners**

Mr. G Flather OBE QC (retired April 2011)

Mr. R Moore

Lord Bilimoria CBE DL

Mrs. S Phillips OBE DL

Professor Dame J Husband DBE FMedSci FRCP FRCR

Sir M Jenkins KCMG

Mr S Corbyn

Mr D. McDonough OBE

Mr M Waterson CBE

Mr A Titchmarsh MBE VMH DL (appointed April 2010)

### **Secretary and Accounting Officer**

PWD Hatt

### **Registered address**

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Telephone: 0207 881 5200

### **Auditor**

The Comptroller and Auditor General

National Audit Office

157–197 Buckingham Palace Road

London SW1W 9SP

### **Solicitors**

Taylor Wessing

5 New Street Square

London

EC4A 3TW

**Investment Managers**

Newton Investment Management Limited  
Mellon Financial Centre  
160 Queen Victoria Street  
London EC4V 4LA

**Chartered Surveyors**

Cordea Savills LLP  
20 Grosvenor Hill  
London W1K 3HQ

**Property Maintenance**

Norland Managed Services Ltd  
57 Southwark Street  
London SE1 IRU

**Bankers**

Barclays Bank plc  
1 Churchill Place  
London E14 5HP

# 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 vest 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. The Royal Hospital Chelsea is not registered with the Charity Commissioners, but is recognised as having Charitable Status by HMRC.

The principal tasks of the Royal Hospital Chelsea are the care of the In-Pensioners and the conservation of its historic buildings and grounds. The cost of major capital projects and the upkeep of the grounds is not met from the 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, for example subsidised holidays and a television service.

The Royal Hospital provides 24-hour cover for 365 days of the year. The staff of the Royal Hospital number 227 full and part-time of whom 76 are medical, nursing and care 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 other costs relating to the welfare of 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. The Grant in Aid is governed by a Framework Document signed on 13 August 2010.

## Public Benefit Statement

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

The Royal Hospital Chelsea provides sheltered accommodation for Army veterans of either sex aged 65 or over and has care home facilities for use by former occupants of the sheltered accommodation. In addition to providing accommodation, food and nursing care, the Royal Hospital provides every opportunity for residents to engage in an active social life and to travel. Residents who are capable of participating in ceremonial events and are outreach activities are expected to do so.

The Commissioners’ current aims are to modernise the accommodation so that it meets the expectation of future pensioners. A new care home has already been built and part of the sheltered accommodation has been upgraded to en suite standard. It is the intention of the Commissioners that all the accommodation should be upgraded to that standard.

## 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.

Each Commissioner is provided with information about 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. The Board is responsible for all major expenditure and governance decisions. The Board has a number of sub-committees: the Audit Committee, the Clinical Governance Oversight Committee, the Investment Committee, the Nominations 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 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;
- 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, and is confident that the statements materially comply with these requirements.



## 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 and reviewed by the Audit Committee half yearly and by the Management Board monthly. It aims to cover a wide range of topics including fire, legal, health and safety, financial, mismanagement, and terrorism. The main risk register is linked to the risk registers held for Health and Safety and Clinical Governance. 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

The Royal Hospital is 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. The Grant in Aid is expected to continue at its current level.

## Relationship with subsidiaries

The Commissioners form a majority of directors on the Board of Royal Hospital Chelsea Appeal Limited. This company has two wholly owned trading subsidiaries, Chelsea Pensioner (RH) Ltd and Tricorne Traders Ltd. All the subsidiaries are audited by Littlejohn LLP.

## Aims, Objectives and Activities

The principal tasks of the Royal Hospital Chelsea are the care of the In-Pensioners and the conservation of its historic buildings and grounds. In addition to the continuing care of the In-Pensioners, the Royal Hospital has a major modernisation programme, including the recently completed Margaret Thatcher Infirmary and modernisation of the remaining living accommodation.

### Principal activities of the year

This has been the second full year of running the Margaret Thatcher Infirmary, which contributes greatly to the life of the Royal Hospital. In May 2010 the former temporary infirmary opened as Long Wards 23 & 24 with en suite accommodation. Planning work is underway on converting all Long Wards to en suite accommodation.

In October 2010 a new trading subsidiary, Tricorne Traders Ltd, went live. It has been set up to run the trading activities of the facilities management department. In February 2011 Tricorne Traders Ltd took over the bar that was formerly run by the In Pensioners Club.

### Volunteers

The Royal Hospital benefits 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 was staffed by volunteers from the British Red Cross who provided an invaluable service. 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

#### **Chaplain**

The Chaplain provides spiritual services to the Royal Hospital community. The main Wren Chapel of the Royal Hospital is licensed as a place of public worship and operates, in most respects, as a 'parish' church. Regular Sunday and weekday services are held, and a high standard of Church Music is provided by its professional choir. The Chapel is the focal point for Regimental Association services throughout the year and is regularly used for weddings, memorial services, carol services and other special events. The Chaplain is also responsible for the smaller Chapel of All Saints, within the Margaret Thatcher Infirmary, where regular services and most In-Pensioner funerals are held, and for the administrative control of the Roman Catholic chapel. The Wren Chapel is also the main venue for the annual RHC Concert Series held in October and November. During the course of the financial year the chapel donated assets to the Royal Hospital in respect of a stained glass window for All Saints Chapel and a box organ.

#### **Secretariat**

The Secretariat is a small department in terms of staff numbers, whose activities cover secretariat support to the Board of Commissioners, human resources, ICT, finance, risk management and insurance. These are all areas which are regarded as containing key business controls by RHC's internal auditors. Much of the work is delegated to heads of department for ICT, HR and Finance.

#### **Human Resources**

HR is responsible for providing the Human Resources function to the RHC in accordance with best practice, Civil Service Pension and NHS Pension administration, payroll information to the Finance Department and tenancy agreements for RHC accommodation.

Following a study, on behalf of the Director of Facilities Management, of our security needs, the decision was taken to outsource this function resulting in TUPE action in respect of nine staff members.

Recruiting for the Infirmary's new structure is nearly complete including the appointment of a Deputy Matron, Assistant Matron, Practice Nurse and an Occupational Therapist. Although it has been hard to attract the quality registered nurses required to meet our exacting standards we now have just a few vacancies left to fill.

Over forty new members of staff have been recruited during the year with an equal number of resignations and retirements. Other posts recruited for included some senior appointments; GP, Adjutant, Captain of Invalids and Staff Assistant.

The Commercial Services Department has been restructured with a mixture of existing and new staff under the Events Department Manager with other job titles now reflecting more closely the roles undertaken.

We appointed a new occupational health adviser – Health Management Ltd and updated our booklet on sick absence "Absence Matters" keeping up our efforts to reduce sick absence and maintain a healthy workforce.

A programme of training for Managers (Preventing & Reducing Bullying & Harassment – Fundamentals) and for all staff (Equality & Diversity) has continued.

#### **Finance**

The Finance Department provides financial and management accountancy services for all Royal Hospital funds, and provides accounting support to the limited company subsidiaries. It operates the Royal Hospital's payrolls. The department receives all cash and makes payments to suppliers. It provides treasury services for the funds of the Royal Hospital. It supports management decision making. It provides regular reports on financial performance to

the Board of Commissioners and the Management Board. It supports the work of the Commissioners' Investment Committee and the Commissioners' Audit Committee. It works closely with the Royal Hospital's external and internal auditors and with the external auditors of the two limited company subsidiaries. In 2010/11 it took the lead in negotiating and agreeing a new Framework Document with MOD in respect of the Grant in Aid. It has taken on financial support of an additional subsidiary Tricorne Traders. There has been an internal review and strengthening of payroll procedures. Following an internal audit report it was agreed that it was appropriate to recruit an additional post which would also take on Secretariat duties in respect of risk management and insurance. The section also moved into accommodation better suited to delivering an efficient and professional service.

### **Information and Communications Technology**

The department supports the information technology and communication systems throughout the Royal Hospital Chelsea. During the course of the year it has integrated the new trading company, Tricorne Traders with Exchequer accounts software, including the installation of a linked till system in the bar and cafe; upgraded the kitchen software to the new system, Saffron; tested disaster recovery processes and created a procedure, documenting all steps to be taken in case of disaster recovery; re-allocated offices for 6 Departments; reviewed all server and workstation licences for Operating System/MS Office; defined data/voice requirement for the Long Ward Refurbishment Project, and resolved 1,301 helpdesk jobs.

### **Adjutant**

The Adjutant's Department deals with In-Pensioner admissions and the daily welfare and administration of the Chelsea Pensioners. At the beginning of the year the Department moved from its location on the west side of the Royal Hospital site to be co-located with the Secretary's Block on the east side of the site.

The focus this year has been on improving internal communication, updating the Department's administrative procedures and focusing on welfare training for all those who work in the Department. There has been a small decline in admissions.

The request from external organisations for representation by In-Pensioners at external events continues to rise with over five hundred such requests this year. The department also provides contingents of Chelsea Pensioners for the Cenotaph Remembrance Service, the RBL Festival of Remembrance at the Royal Albert Hall and the Edinburgh Military Tattoo. The department handed over responsibility for the In-Pensioners' Club to the Quartermaster on 1 February 2011.

### **Margaret Thatcher Infirmary**

The Margaret Thatcher Infirmary has been open since January 2009. It incorporates a Care Home with Nursing & Residential Care and a Medical Centre delivering Primary Health Care to all In Pensioners and entitled Staff. The building offers excellent facilities and has stimulated international interest as an environment for care of the elderly. We are developing a reputation as a benchmark for how old age communities can flourish in a framework of shared history and comradeship. We are regulated by the Care Quality Commission and the Kensington and Chelsea Primary Care Trust. Care is delivered through the multi-disciplinary team and led by the Physician and Surgeon (a senior GP) and the Matron. There is a strong emphasis on training and development and the Core Values of the Margaret Thatcher Infirmary are firmly based on the dignity and respect every Chelsea Pensioner can expect from all members of the staff team. We provide long and short stay care to the men and women who are the Chelsea Pensioners of the Royal Hospital and take great pride in our end of life care programme. We are in the process of registering for our internal Domiciliary Care Service which will offer a regulated and improved transition of care to all Pensioners in the Long Wards. On a recent unannounced inspection by the Care Quality Commission we were congratulated on running a beacon of excellence in elderly care. This was valued feedback for the whole Infirmary team. Throughout the year the Medical Centre has engaged actively with the Primary Care Trust and is developing a stronger revenue stream through the Quality Outcome Framework. All quality issues are reviewed by the Clinical Governance Oversight Committee which reports quarterly to the Board of Commissioners.

### **Director Facilities Management/Quartermaster.**

The Director of Facilities Management/Quartermaster is responsible for providing and facilitating for the whole of the RHC: the provision of stores and all procurement issues, cleaning, portering, catering, security and reception services, the maintenance of the fabric and electrical and mechanical aspects of all the buildings and infrastructure, the upkeep of the 66 acres of grounds, all building and infrastructure related projects undertaken within the establishment. In addition he is the Royal Hospital's Health and Safety Officer, Environmental Officer and the Sustainable Development responsible person.

### **Facilities Budget Management**

Given the Quartermaster's Department controls and spends some 65% of the RHC running cost budget the Budget Manager's position is vital to the successful day to day operations of the Department. By appointing resource managers that have delegated but controlled powers the budget is run and controlled in a taut, effective and efficient manner, ensuring correct accountability and visibility of the budget at all times.

### **Property Maintenance & Management**

Property Maintenance & Management has now been outsourced for two years and the RHC continues to receive an excellent level of service. The in-year works programme and the 5 year forward maintenance plan have continued to be refined to allow both tactical and strategic planning to occur which is of major benefit to the RHC in respect of effectiveness and efficiencies and also in obtaining value for money. The help desk continues to be an integral part of the service offered by the outsourced property discipline and this facility again brings many added benefits to the RHC in respect of the day to day maintenance of the establishment and customer satisfaction.

### **Grounds**

We are now in the third year of a five year forward maintenance programme that has brought about great benefit to the grounds and gardens of the RHC as well as major cost savings and efficiencies. The irrigation project undertaken during the last financial year has seen the grounds of the RHC benefit immensely and they are now the showcase that befits a site of national heritage importance. A number of projects have been introduced within the grounds during the financial year in conjunction with the Royal Horticultural Society (RHS) that have seen major improvements, particularly in Ranelagh Gardens. Given that the Ranelagh Gardens will no longer see outside agencies make use of them, with the exception of the RHS, plans are in place to see these gardens flourish over the coming years. Major arboreal work has been undertaken in year to enhance not only the RHC site but also the site in respect of the many residents that surround the site. Liaison work has been continuing through the year between Masterpiece, a major fine arts exhibition that will follow the Chelsea Flower Show, and the RHS to ensure that the grounds can be protected and restored in an effective and cost efficient manner once both major shows have taken place.

### **Visitor and Security Services**

The security service at the RHC was outsourced in December 2010 and since then major improvements to the services have been introduced and successfully implemented. The team consists of a Visitor and Security Manager, 22 fully trained Visitor and Security Officers and 2 Receptionists.

Emphasis is being placed on an increase in Health and Safety Awareness by introducing a Hazard Log and getting potential hazards remedied immediately and ensuring a warm and friendly welcome to all the visitors of the RHC by the introduction of a Visitor Centre. The security team is also on the frontline to respond to any emergencies on site and will initiate emergency escalation procedures and reporting.

### **Catering**

The Catering Department has seen major restructuring and reorganisation through the year with the Catering Manager taking on the role of Food and Beverage Manager, assuming additional responsibility for:

- A newly constructed and opened café that replaced a smaller establishment that had proved to be a success but far too small an outlet.
- The running of the In-Pensioners Club and soon to be opened In-Pensioners Welfare Facility.

All stock and cash policy and procedures within the Department have been centralised on the Exchequer IT system making all activities in respect of procurement and accountability far more efficient and robust. The introduction of a more taut and streamlined managerial structure within the Catering Department has brought about major benefits for the In- Pensioners of the RHC.

### **Projects**

Work has continued throughout the year on the major Long Ward project with planning permission and listed building consent being granted for the modernisation of the Christopher Wren long wards that will eventually see all In-Pensioners accommodation at the Royal Hospital Chelsea as en-suite accommodation. The proposed project has been advertised in the Official Journal of the European Union and Pre-Qualification Questionnaires have been issued and returned with the successful tenderer being appointed in the coming financial year. Long Wards 23 & 24, which were open last year, have proved to be a major success and are now the blue print for the next phase of the modernisation programme.

The boiler project which was originally a component part of the major long wards project has been extracted from the major project and the work tendered as a stand-alone project. The contract was awarded in year and work has commenced to replace the boilers at the RHC with the work being completed in August this year.

A minor project saw the construction of a 60 seat café being constructed as an extension to the Margaret Thatcher Infirmary which has proved to be a major success.

Planning permission has been granted and work commenced on the refurbishment to the current In-Pensioners Club expanding the current facilities to create a games room, a reading and library room and an area where buffets can be served to ensure legislative procedures are fully complied with.

### **Procurement**

The Procurement Manager's (PM) role oversees all procurement matters within the RHC with an aim to promote the scrutiny of requirements and increase exposure of our requirements to competition in order to ensure transparency of a fair and equitable process and to obtain best value for money.

The PM has continued to seek improvement in procurement procedures this year by creating tender documentation for increased competition, introducing tender boards, governance of purchasing procedures, including the use of the Government Procurement Card, undertaking category reviews to seek efficiencies in goods and services procured, recommending procurement strategy, introducing key performance indicators to major contracts, being an integral team member of major works projects and improving contract monitoring. The function and controls introduced have successfully passed internal audit and greatly improved value for money in goods and services purchased. One of the larger tasks of this last Financial Year was to outsource security services, with the tender process being competitively run in accordance with EU Directives.

### **Compliance**

The introduction of a Compliance Manager during the last financial year has proved to be highly successful, particularly in respect of the day to day management of utilities. The Compliance Manager has ensured that efficiencies have been achieved across all utilities consumed by the RHC and this has seen a major in year reduction in spend on this discipline.

The Compliance Manager has also introduced policies across his whole range of responsibilities placing the RHC in a very comfortable position in respect of compliance, legislative and statutory matters.

### **Service Support**

As with compliance the introduction of a Service Support Manager during the last financial year has proved to be highly beneficial with effectiveness and efficiencies being produced in respect of day to day site operations. The post holder has also taken on responsibility for the outsourced Visitor and Security Services and is the contract designated officer.

### **Quartermaster's Stores**

The appointment of a Stores Manager during the last financial year has proved to be highly beneficial. The stores are now in a position to fully support the RHC in respect of SMART procurement, achieving value for money and delivering the service to its customers in a high efficient and effective manner.

### **Development Director**

The Development Director is responsible for building and sustaining the Royal Hospital's business development, commercial services and fundraising activities with the aim of generating additional capital and revenue streams needed to secure the future of the Institution. He is also responsible for directing the marketing and external communication activities with the aim of advancing the public awareness of the work of the Royal Hospital and of the Army's contribution to the nation.

The Development Department under the Development Director is totally self-funding and commenced operations in March 2008 when it took over and oversaw the end of the Infirmary Appeal fundraising which was led by The Marquis of Salisbury.

The Development Director has consolidated the whole of the Hospital's fundraising activities represented by the Royal Hospital Chelsea Appeal Limited and its trading subsidiary Chelsea Pensioner (RH) Limited. He is also managing the activities of the re-vitalised Friends organisation which now has over 2,000 members and has contributed since its launch in June 2008 nearly £400,000 to the Chelsea Pensioners' Appeal.

The Appeal has to date paid for the construction of the new Infirmary and the new long wards 23/24 occupied by 34 Chelsea In-Pensioners in May 2010, and continues to raise money each year to bridge the gap in income between The Grant in Aid and the RHC's actual operating costs. Major emphasis has been placed on finding new commercial activities. The Masterpiece Antiques Fair has signed up to join the Chelsea Flower Show on the South Grounds.

A good example of reaching out to the nation was the Development team's recruitment of Seven Chelsea In-Pensioners into a joint venture with Warner Music. The group sang their way to a gold disk before Christmas 2010 and achieved massive PR and TV coverage for the RHC and the Appeal. All the In-Pensioners' royalties were contributed to the Appeal.

The Development Department has adopted a dynamic approach to legacies, recognizing these are potentially a useful if unpredictable source of income. In particular, it is active in monitoring all probates where the executor has charitable discretion, and making appropriate approaches. This has already delivered significant benefits.

The Development Department is constantly assessing new business opportunities to maximise profits and this year contributed a net contribution of £2,793,028 to the Royal Hospital Chelsea.

# Financial review and results for the year

## Financial Review

### Grant in Aid

The Grant in Aid (GIA) funds the care of the In-pensioners, including food and utilities. The total funding received from MOD was £10,838,000. At the end of the year only £10,059 remained in GIA bank accounts unconsumed. In part due to the change in indexation for the closed pension scheme, this rose to a surplus of income over expenditure of £42,702. In the course of the year some £900,000 of expenditure that met the criteria for GIA, but where GIA funds were not available, was paid for from the Army Prize Money and Legacy Fund where it can be covered by income from the subsidiary companies. The difference between the SOFA and the cash flow is analysed fully in the cash flow statement. Although the GIA balance sheet shows an excess of liabilities over assets, payments due from Grant in Aid will continue to be made owing to the continuing MOD funding that was agreed in the Framework Document.

### Army Prize Money and Legacy Fund

The Army Prize Money and Legacy Fund (APML) had income of £2,900,736 and additionally funds were donated from RHC Appeal of £2,793,028. Of this £900,000 related to running costs to allow a higher level of property management expenditure than is funded from Grant in Aid, and £1,893,028 related to the development programme including design costs for the Long Wards Refurbishment, payments on the installation of new boilers and the conversion of the former temporary infirmary to long wards with en suite accommodation. Revenue expenditure charged to the APML was £9,632,198 of which £7,571,114 related to depreciation on Fixed Assets.

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, 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 15 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. This year the basis of the indexation of pensions in payment changed from the Retail Price Index to the Consumer Price Index resulting in a negative past service cost of £24,000. Under FRS 17 there is a pension liability of £432,000 attributable to the Grant in Aid fund (see note 29).

### Reserves policy

The Grant in Aid is not permitted to hold any reserves. As at 31 March 2011 the Army Prize Money and Legacy Fund had restricted funds of £51,451, being principally the RHC Chapel Deposit of £36,012. Royal Hospital Chelsea Appeal Limited and its subsidiaries held reserves of £102,193, of which £256 are restricted. RHC Appeal reserves are maintained at a level to meet the charitable objectives of the organisation.

### Tangible fixed assets

The Hospital's operational land and buildings are stated at a professional valuation obtained in 2007/08. In accordance with the Royal Institution of Chartered Surveyors guidance, the valuation basis is depreciated replacement cost. This basis is intended to measure the value to the Hospital of the assets in their present location, use and condition. The Margaret Thatcher Infirmary was added to the asset register in 2008/09 at a valuation of £27,304,308 based on the construction costs of the building. At the end of the financial year the operational Land and Buildings have a net book value of £563,292,052. There are assets under construction of £1,652,401 of which the design work on the Long wards Redevelopment is the major item. Investment assets have a value of £21,910,000 based on the 2007/08 valuation. Other fixed assets have a net book value of £2,042,466.



## 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.

The Commissioners' policy is to provide a defined level of income annually as well as capital growth in real terms over the longer period. The Commissioners believe that this investment policy remains appropriate.

## Payments to Suppliers

The Hospital aims to pay all suppliers within 30 days of receipt of the invoice. In furtherance of this aim procurement cards have been introduced as a means of paying for low value purchases. Higher value payments are made by BACs. Scanning of invoices has been introduced to help speed up internal approvals.

## Plans for future periods

### Development plans

New boilers are in the process of installation to improve reliability and efficiency. The former in-pensioners Club is being expanded to create a wider social facility for in-pensioners, including a restaurant. Medium term plans concentrate on the modernisation of all 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.

### Audit Arrangements

The accounts of the Royal Hospital are audited by the Comptroller and Auditor General in accordance with the Chelsea Hospital Act 1876. An audit fee of £32,000 has been charged for the audit (£30,000 in 2009/10) and is included in the Governance costs of the Hospital. The increase in fee reflects the actual time taken to complete the audit. No non-audit work was carried out on behalf of the Hospital in 2010-11.

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

*PWD Hatt*  
Secretary and Accounting Officer

12 July 2011

## Statement on Internal Control

### Scope of responsibility

The Board of Commissioners and the Accounting Officer 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 the Accounting Officer is 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 provide only reasonable and not absolute assurance of effectiveness. The system of internal control is based on a continuing 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 2011 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,
- regular Health and Safety reviews, and
- a Clinical Governance Oversight Committee.

### 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.
- The MTI is regulated by the Care Quality Commission and the Kensington and Chelsea Primary Care Trust.  
Every department is required to have First Aid staff with up to date qualifications.
- 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.

## Information Security

- All staff are required to read the ICT Policy Document which includes a section on information security before gaining access to the ICT system.
- Failure to adhere to ICT security policy can result in disciplinary action.
- Access to hard copy records is restricted to staff who need access in the course of their duties.

## Fraud Prevention and Detection

The Royal Hospital Chelsea communicates a robust code of conduct to all employees (full time, part time, temporary and casual). All staff are subject to Criminal Records Bureau Disclosures. Permanent contractors on site must explicitly abide by Royal Hospital Chelsea procedures. All offences are reported to the Charities Commission and Ministry of Defence. Any loss or impact on Grant in Aid and Appeal resources is also reported to the Ministry of Defence.

## Review of effectiveness

The Commissioners and Accounting Officer have responsibility for reviewing the effectiveness of the system of internal control. The Accounting Officer's 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. The Accounting Officer has been advised on the implications of the result of the 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. Internal Audit Services were provided by Crowe Clark Whitehill. The latest report provided assurance of the system of internal controls.
- Care Quality Commission and Kensington and Chelsea Primary Care Trust review the effectiveness of the MTI. On a recent unannounced inspection by the Care Quality Commission the MTI was congratulated on running a beacon of excellence in elderly care.
- 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.

During the course of the year a weakness in the application of procurement controls was identified and addressed.

So far as the Commissioners and Accounting Officer are aware, there is no relevant audit information of which the Hospital's auditors are unaware. They have taken all steps to make themselves aware of any relevant audit information and to make sure that the Hospital's auditors are aware of that information.

*PWD Hatt*  
Secretary and Accounting Officer

12 July 2011

*R Moore*  
Chairman of Audit Committee  
On behalf of the Board of Commissioners  
12 July 2011

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

I certify that I have audited the financial statements of Royal Hospital Chelsea for the year ended 31 March 2011 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, Secretary and Auditor

The Commissioners and the Secretary, as Accounting Officer, are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

My responsibility is to audit the financial statements in accordance with the Chelsea Hospital Act 1876. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## Scope of the audit of the financial statements

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

## Opinion on Regularity

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

## Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the Royal Hospital Chelsea state of affairs as at 31 March 2011, 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 the accounting policies set out within them.

## Opinion on other matters

In my opinion:

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

### Matters on which I am required to report by exception

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

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

### Report

I have no observations to make on these financial statements.

*Amyas C E Morse*  
Comptroller and Auditor General

15 July 2011

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

## Statement of Financial Activities for the year ended 31 March 2011

	Notes	Grant in Aid Fund	Army Prize Money and Legacy Fund	Army Prize Money and Legacy Fund Subsidiaries	Subsidiaries	Total Group Funds	Prior Year Total Group Funds
		Unrestricted Funds	Unrestricted Funds	Restricted Funds	Unrestricted Funds	Restricted Funds	2010
		£	£	£	£	£	£
<b>Incoming resources</b>							
<b>Incoming resources from generated funds</b>							
Voluntary income	2		744,152	100,000	670,371	3,100	5,271,583
Activities for generating funds	3		41,153		2,062,616		1,799,828
Investment income	4	564	1,976,578		14,624		1,317,321
Charitable activities	5	10,838,000					10,824,000
Other incoming resources	6	446,836	38,853				610,271
Total incoming resources		11,285,400	2,800,736	100,000	2,747,611	3,100	19,823,003
<b>Resources expended</b>							
<b>Costs of generating funds</b>							
Costs of generating voluntary income	7		111,193		155,452		410,396
Fundraising trading: cost of goods sold and other costs	8		45,415		975,689		946,321
Investment management costs			50,399				57,076
Charitable activities:						134	606
Infirmary nursing and medical	9	2,809,138	4,192				2,682,196
Welfare and ceremonial	10	644,091	107,131	99,355			1,125,101
Facilities management	11	6,292,196	1,497,565	2,595			7,661,905
Projects	14	0	0			0	131,024
Administrative support and central costs	12	1,333,384	89,217				1,720,584
Other resources expended: depreciation	18	85,378	7,571,114		8,738		7,526,030
Provisions	26	0	(12,170)				17,459
Governance costs	15	78,511	66,192		27,498		134,622
Total resources expended		11,242,698	9,530,248	101,950	1,167,377	134	22,413,320

Net incoming/(outgoing) resources before transfers	42,702	(6,729,512)	(1,950)	1,580,234	2,966	(5,105,560)	(2,590,317)
Transfers							
Gross transfers	17	2,831,593	(38,565)	(2,246,731)	(546,297)	0	0
Net incoming/outgoing resources before other recognised gains and losses		42,702	(3,897,919)	(40,515)	(666,497)	(5,105,560)	(2,590,317)
Other recognised gains/(losses)							
Realised profit/(loss) on investments		14,274				14,274	(62,276)
Realised loss on disposal of fixed assets		0	0			0	(16,410)
Unrealised gains/(losses) on investment assets	19	605,122				605,122	2,485,897
Prior years AUC reclassified as expense		(22,210)				(22,210)	0
Re-lifed assets		0	0			0	505,784
Actuarial gains/(losses) on defined benefit pension schemes						0	(69,000)
Net movement in funds		42,702	(3,300,733)	(40,515)	(666,497)	(543,331)	253,677
Reconciliation of funds							
Total funds brought forward		(444,175)	606,811,405	91,966	768,434	543,587	607,771,217
Total funds carried forward		(401,473)	603,510,672	51,451	101,937	256,603	607,771,217

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

The notes on pages 25 to 46 form an integral part of these financial statements.



## Consolidated Balance Sheet as at 31 March 2010

	Notes	Total Group Funds 2011		2010
		£	£	£
<b>Fixed assets</b>				
Tangible assets				
Heritage	18	<b>402,664</b>		361,065
Non-heritage	18	<b>566,584,255</b>		571,725,197
Listed investments	19	<b>11,749,123</b>		11,165,895
Investment property	20	<b>21,910,000</b>		21,910,000
		<b>600,646,042</b>		605,162,157
<b>Current assets</b>				
Stocks	21	<b>158,932</b>		113,345
Debtors	22	<b>758,297</b>		221,943
Cash at bank and in hand	23	<b>4,240,402</b>		5,393,077
		<b>5,157,631</b>		5,728,365
<b>Creditors: amounts falling due within one year</b>	24	<b>(2,060,818)</b>		(2,297,018)
<b>Net current assets/(liabilities)</b>		<b>3,096,813</b>		3,431,347
<b>Total assets less current liabilities</b>		<b>603,742,855</b>		608,593,504
<b>Creditors: amounts falling due over one year</b>	25	<b>(48,012)</b>		(314,861)
<b>Provisions for liabilities and charges</b>	26			
Under one year				– (18,403)
More than one year				– (15,023)
				(33,426)
<b>Pensions liability</b>	29	<b>(432,000)</b>		(474,000)
<b>Total Assets less Liabilities</b>		<b>603,262,843</b>		607,771,217
<b>Reserves</b>				
Grant in aid fund		<b>(401,473)</b>		(444,175)
Army Prize Money and Legacy Fund: hospital funds				
Restricted funds		<b>51,451</b>		91,966
Unrestricted funds		<b>258,833,103</b>		262,133,836
Revaluation reserve		<b>344,677,569</b>		344,677,569
Funds retained in Royal Hospital Chelsea Appeal Ltd				
Unrestricted		<b>55,752</b>		723,152
Restricted		<b>256</b>		543,587
Retained Profit Trading Subsidiaries		<b>46,185</b>		45,282
Consolidated Army Prize Money and Legacy Fund		<b>603,664,316</b>		608,215,392
Total reserves		<b>603,262,843</b>		607,771,217

Prior– year heritage and non–heritage asset balances have been restated in accordance with FRS30

The notes on pages 25 to 47 form an integral part of these financial statements.

## Balance Sheet as at 31 March 2011

	Notes	Grant in Aid Fund £	Army Prize Money and Legacy Fund £	Total Hospital Funds 2011 £	Total Funds 2010 £
<b>Fixed assets</b>					
Tangible assets	18				
Heritage		0	402,664	402,664	361,065
Non-heritage		500,958	566,019,640	566,520,598	571,671,042
Listed investments	19		11,749,123	11,749,123	11,165,895
Investment property	20		21,910,000	21,910,000	21,910,000
		<u>500,958</u>	<u>600,081,427</u>	<u>600,582,385</u>	<u>605,108,002</u>
<b>Current assets</b>					
Debtors	22	90,409	106,860	197,269	123,979
Cash at bank and in hand	23	10,059	3,676,385	3,686,444	3,276,009
		<u>100,468</u>	<u>3,783,245</u>	<u>3,883,713</u>	<u>3,399,988</u>
<b>Creditors: amounts falling due within one year</b>	24	<u>(590,272)</u>	<u>(728,312)</u>	<u>(1,318,584)</u>	<u>(1,550,045)</u>
<b>Net current assets</b>		<u>(489,804)</u>	<u>3,054,933</u>	<u>2,565,129</u>	<u>1,849,943</u>
<b>Inter company balances</b>		19,373	473,775	493,148	323,538
<b>Total assets less current liabilities</b>		<u>30,527</u>	<u>603,610,135</u>	<u>603,640,662</u>	<u>607,281,483</u>
<b>Long term creditors</b>	25	0	(48,012)	(48,012)	(314,861)
<b>Provisions for liabilities and charges</b>	26				
Due under one year		0	0	0	(18,403)
Due over one year		0	0	0	(15,023)
<b>Net assets excluding pension liability</b>		<u>30,527</u>	<u>603,562,123</u>	<u>603,592,650</u>	<u>606,933,196</u>
<b>Pension liability</b>	29	<u>(432,000)</u>		<u>(432,000)</u>	<u>(474,000)</u>
<b>Net assets/(liabilities) including pension liability</b>		<u>(401,473)</u>	<u>603,562,123</u>	<u>603,160,650</u>	<u>606,459,196</u>
<b>Reserves</b>					
Restricted funds			51,451	51,451	91,966
<b>Unrestricted income funds</b>					
Grant in aid fund		(401,473)		(401,473)	(444,175)
Army prize and legacy fund			258,833,103	258,833,103	262,133,836
Revaluation Reserve			344,677,569	344,677,569	344,677,569
<b>Total funds</b>		<u>(401,473)</u>	<u>603,562,123</u>	<u>603,160,650</u>	<u>606,459,196</u>

Prior-year heritage and non-heritage asset balances have been restated in accordance with FRS30

The notes on pages 25 to 47 form an integral part of these financial statements.

## Consolidated Cash Flow Statement year ending 31 March 2011

	Grant in Aid Fund £	Army Prize and Legacy Fund £	Total Group Funds £
<b>Net cashflow inflow/(outflow) from operating activities</b>	1,816	(594,328)	(592,512)
<b>Returns on investment</b>			
Interest received	564	38,114	38,678
Dividends received	0	378,912	378,912
Income received from investment properties	0	1,574,176	1,574,176
	<u>564</u>	<u>1,991,202</u>	<u>1,991,766</u>
<b>Capital expenditure and capital investment</b>			
Payments to acquire listed investments	0	(3,384,986)	(3,384,986)
Proceeds from listed investments sold	0	3,421,154	3,421,154
Proceeds from sale of fixed assets	0	0	0
Payments to acquire tangible fixed assets	0	(2,588,097)	(2,588,097)
	<u>0</u>	<u>(2,551,929)</u>	<u>(2,551,929)</u>
<b>Increase/(Decrease) in cash</b>	<b>2,380</b>	<b>(1,155,055)</b>	<b>(1,152,675)</b>
Net incoming/(outgoing) resources before transfers	42,702	(5,148,262)	(5,105,560)
Interest receivable	(564)	(38,114)	(38,678)
Income from listed investments	0	(378,912)	(378,912)
Income from investment properties	0	(1,574,176)	(1,574,176)
Depreciation	85,378	7,579,852	7,665,230
(Increase)/decrease in stocks	0	(45,587)	(45,587)
(Increase)/decrease in debtors	(11,744)	(548,791)	(560,535)
Increase/(decrease) in creditors	(71,956)	(406,912)	(478,868)
Movement in provisions	0	(33,426)	(33,426)
Difference between FRS17 charge and pension payments	(42,000)	0	(42,000)
Net cashflow inflow/(outflow) from operating activities	<u>1,816</u>	<u>(594,328)</u>	<u>(592,512)</u>
Opening net funds	7,679	5,385,398	5,393,077
Movement in period being change in Cash Balances	<u>2,380</u>	<u>-1,155,055</u>	<u>-1,152,675</u>
Closing net funds	<u>10,059</u>	<u>4,230,343</u>	<u>4,240,402</u>

# Notes to the Financial Statements for the period ended 31 March 2011

## 1 Accounting policies

### 1.1 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 2006. 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. RHC have conducted a review of their accounting policies to ensure that they comply with the SORP except for not apportioning support costs to Charitable Objectives and not including expenditure relating to statutory responsibilities within Governance Costs.

Consolidated financial statements have been prepared for the Hospital, including the Grant in Aid Fund and the Army Prize Money and Legacy Fund, and the consolidated accounts of its subsidiary, Royal Hospital Chelsea Appeal Limited, which includes the trading subsidiaries Chelsea Pensioner (RH) Limited and Tricorne Traders Limited. References to the Hospital refer solely to the Royal Hospital Chelsea. References to the Group include the subsidiaries. The consolidated accounts exclude intercompany transactions from the SOFA and end of year intercompany balances from the balance sheet.

### 1.2 Recognition of incoming resources

Voluntary income, donations and legacies are accounted for in the Statement of Financial Activities (SOFA) when they become receivable. In most cases this is little different from accounting for them as they are received. Grant in Aid is accounted for as it is received. Rents and earned income are accounted for as they are receivable. Where income is received in advance of the related service being delivered to the customer, a liability is raised, deferred income, until the related service is delivered, at which point the income is recognised. The Royal Hospital Chelsea's deferred income relates to rent and to the trading activities of CP(RH) Ltd.

### 1.3 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.

### 1.4 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. Restricted funds are analysed in the notes to the accounts.

### 1.5 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 unless there is evidence of material change in the interim. The most recent revaluation took place as at 1 April 2007 and the next full revaluation is planned as at 1 April 2012. 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, or for 50 years in respect of a permanent new building before its first valuation
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

Assets are reviewed for the likelihood of material impairments annually.

### 1.6 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 FRS30, which prevents operational assets being treated as heritage assets. RHC paintings and artefacts are being valued and will be included as a heritage asset in the 2011/12 accounts. There would have been disproportionate cost in obtaining a valuation for the 2010/11 accounts.

### 1.7 Investment properties

Investment properties are shown at their open market value. Valuations by independent professionally qualified valuers are obtained at five yearly intervals unless there is evidence of material change in the interim. The most recent revaluation took place as at 1 April 2007 and the next full revaluation is planned as at 1 April 2012. No depreciation is charged on investment properties.

### 1.8 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.

### 1.9 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.

### 1.10 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.

### 1.11 Taxation

The Hospital is recognised as charitable by HM Revenue & Customs and is generally exempt from Corporation Tax on surpluses and capital gains. CP(RH) Ltd and Tricorne Traders Ltd gift their profits in full to RHC Appeal Ltd and therefore incur no liability for corporation tax. RHC Appeal Ltd is a registered charity and has no liability for corporation tax. The Hospital has de-registered for the purposes of VAT. Irrecoverable VAT is included in the SOFA with the item to which it relates. CP(RH) Ltd (the trading subsidiary company) is registered for VAT.

## 2 Voluntary Income

	Army Prize Money and Legacy Fund		RHC Appeal Ltd – Consolidated Accounts		Total Group Funds	Prior Year Total Group
	Unrestricted Funds	Restricted Funds	Unrestricted Funds	Restricted Funds	2011	2010
	£	£	£	£	£	£
Donations and legacies	<b>744,152</b>	<b>100,000</b>	<b>670,371</b>	<b>3,100</b>	<b>1,517,623</b>	5,271,583

Donations and legacies include £273,984 (£451,682 in 2009/10) received from the EH Dashwood Estate. The Hospital is entitled to 25% 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 total income from

all legacies this period was £356,417 (£701,793 in 2009/10). The Army Prize Money and Legacy Fund received a donation from the In-Pensioners Club of £201,670 on its winding up, being money previously on loan.

### 3 Activities for generating funds

	Army Prize Money and Legacy Fund		RHC Appeal Ltd – Consolidated Accounts		Total Group Funds	Prior Year Total Group
	Unrestricted Funds	Restricted Funds	Unrestricted Funds	Restricted Funds	Restricted Funds	2010
	£	£	£	£	£	£
Prince of Wales Hall	41,153	–	–	–	41,153	38,551
RHC Appeal Ltd	–	–	2,062,616	–	2,062,616	1,761,277
<b>Total</b>	<b>41,153</b>	<b>0</b>	<b>2,062,616</b>	<b>0</b>	<b>2,103,769</b>	<b>1,799,828</b>

The income within the RHC Appeal Consolidated Accounts is the trading income received by its subsidiaries, CP(RH) Ltd and Tricorne Traders. The increase since last year reflects increased profits from CP(RH) Ltd and the creation of Tricorne Traders.

The Prince of Wales Hall is primarily a welfare facility. In 2010/11 the cost of sales exceeded turnover and it made a net deficit of £4,262 (£2,303 in 2009/10). It is being replaced by a café run through Tricorne Traders Ltd.

### 4 Investment Income

	GIA	Army Prize Money and Legacy Fund		RHC Appeal Ltd – Consolidated Accounts		Total Group Funds	Prior Year Total Group
	Unrestricted Funds	Unrestricted Funds	Restricted Funds	Unrestricted Funds	Restricted Funds	Restricted Funds	2010
	£	£	£	£	£	£	£
Dividends for year	–	378,912	–	–	–	378,912	353,315
Income from property	–	1,574,176	–	–	–	1,574,176	914,202
Bank Interest Received	564	23,490	–	14,624	–	38,678	49,804
<b>Total</b>	<b>564</b>	<b>1,976,578</b>	<b>0</b>	<b>14,624</b>	<b>0</b>	<b>1,991,766</b>	<b>1,317,321</b>

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 £1,574,176 (£914,202 in 2009/10) shown as income from investment properties includes £1,339,449 paid to the Hospital in respect of such premiums (£734,140 in 2009/2010). Bank interest is lower than last year due to low interest rates. Dividend income has increased to £378,912 from £353,315 in 2009/10.

## 5 Charitable activities

	Grant in Aid		RHC Appeal Ltd – Consolidated Accounts		Total Group Funds	Prior Year Total Group
	Unrestricted Funds	Unrestricted Funds	Unrestricted Funds	Restricted Funds	Restricted Funds	2010
	£	£	£	£	£	£
Grant in Aid	<b>10,838,000</b>	–	–	<b>10,838,000</b>		10,824,000
Total	<b>10,838,000</b>	<b>0</b>	<b>0</b>	<b>10,838,000</b>		10,824,000

There are no specific conditions on the Grant in Aid other than that it should be spent on revenue expenditure in accordance with the Crown Letters Patent and the Framework Document with the Ministry of Defence.

## 6 Other incoming resources

	Grant in Aid		Army Prize Money and Legacy Fund		Total Group Funds	Prior Year Total Group
	Unrestricted Funds	Unrestricted Funds	Unrestricted Funds	Restricted Funds	Restricted Funds	2010
	£	£	£	£	£	£
Staff accommodation charges	<b>213,447</b>	–	–	<b>213,447</b>		226,332
Family practice	<b>22,143</b>	–	–	<b>22,143</b>		27,509
Food Recoveries	<b>32,549</b>	–	–	<b>32,549</b>		88,405
Events recoveries	–	<b>31,901</b>	–	<b>31,901</b>		17,604
Pension contributions	<b>115,006</b>	–	–	<b>115,006</b>		115,006
Other income	<b>63,691</b>	<b>6,952</b>	–	<b>70,643</b>		135,415
Total	<b>446,836</b>	<b>38,853</b>	<b>0</b>	<b>485,689</b>		610,271

Pension contributions represent income from the NHS in respect of increased employer's pension contributions for staff in the National Health Service Superannuation Scheme. Food recoveries has fallen due to the establishment of Tricorne Traders, which now purchases and sells all food in the café and for functions where RHC Catering is used. Events recoveries reflect costs billed directly for entitled events. Other income is lower than the previous year, primarily because in 2009/10 APML received a payment of £59,853 in respect of costs incurred in an earlier year for RHC Appeal redundancies.

## 7 Costs of generating voluntary income

	Grant in Aid		Army Prize Money and Legacy Fund		RHC Appeal Ltd – Consolidated Accounts		Total Group Funds	Prior Year Total Group
	Unrestricted Funds	Unrestricted Funds	Unrestricted Funds	Unrestricted Funds	Restricted Funds	Restricted Funds	2011	2010
	£	£	£	£	£	£	£	£
Staff costs	–	<b>101,177</b>	–	–	–	<b>101,177</b>		73,760
Support and training	–	<b>0</b>	–	–	–	<b>0</b>		162
Other costs	–	<b>10,016</b>	<b>155,452</b>	–	–	<b>165,468</b>		336,474
Total	<b>0</b>	<b>111,193</b>	<b>155,452</b>	<b>0</b>	<b>0</b>	<b>266,645</b>		410,396

These costs were incurred within the Development Directorate. Staff costs within the RHC Appeal Ltd consolidated accounts are not shown separately. The increase in APML staff costs under this heading reflects the correct attribution of all choir costs relating to entitled events such as weddings to the Commercial Services Department within the Development Directorate. The prior year balance has been restated to reflect the change in classification of expenditure in the consolidated RHC Appeal Ltd accounts. These used to be divided between Costs of Generating

Voluntary Income and Governance. The expenditure is now also broken down to Fundraising Trading and Charitable Activities.

## **8 Fundraising trading: costs of goods sold and other costs**

The Hospital has one subsidiary company.

### *Royal Hospital Chelsea Appeal Limited*

The company is limited by guarantee and incorporated in England and Wales, and is a registered charity. The Hospital controls the company because its rules require that the majority of the Board of Directors should be Commissioners of the Royal Hospital.

This company wholly owns its trading subsidiaries, Chelsea Pensioner (RH) Ltd and Tricorne Traders Ltd.

### *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. 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.

### *Tricorne Traders Ltd*

The company commenced trading in October 2010. It was formed to ensure that, following the transfer of the bar, from the In-pensioners club, the trading activities of the Facilities Management Department went through a VAT registered entity.

In total the limited companies donated £2,793,028 to the Army Prize Money and Legacy Fund (£4,358,457 in 2009/10). The reduction is largely due to the temporary reduction in activity in the Development Programme following the completion of Long Wards 23 and 24. This donation is eliminated on consolidation of the Group accounts.



A summary of the RHC Appeal accounts is below:

### RHC Appeal Ltd – summary of consolidated accounts

	2011	2010
	£	£
Income	<b>2,750,711</b>	6,372,572
Expenditure	<b>(3,960,539)</b>	(5,595,832)
Net movement of funds	<b>(1,209,828)</b>	776,740
Fixed assets	<b>63,657</b>	54,155
Stock	<b>158,932</b>	113,345
Debtors	<b>565,073</b>	97,964
Cash	<b>553,958</b>	2,117,068
Investments	<b>0</b>	0
Creditors: less than 1 year	<b>(1,239,427)</b>	(1,070,511)
Net assets and funds carried forward	<b>102,193</b>	1,312,021
Funds in limited companies as at 31 March 2010	<b>102,193</b>	1,312,021
Reserves		
Restricted funds	<b>256</b>	543,587
Unrestricted	<b>101,937</b>	768,434
	<b>102,193</b>	1,312,021

Expenditure includes donations from RHC Appeal Ltd to the Royal Hospital. On consolidation to the Group accounts expenditure is reduced by £2,793,028 in respect of intercompany donations and creditors is reduced by £500,762 in respect of sums due to the Royal Hospital.

#### *The Prince of Wales Hall*

The Prince of Wales Hall is a welfare facility, but it does trade in light refreshments with the aim of breaking even. In some years it has produced a small profit. This year it produced a small deficit. It is ceasing to trade and is being replaced by a café run by Tricorne Traders Ltd.

#### *Prince of Wales Hall*

	2011	2010
	£	£
Turnover	<b>41,153</b>	38,551
Cost of sales	<b>(45,415)</b>	(40,792)
Gross profit	<b>(4,262)</b>	(2,241)
Other costs	<b>0</b>	(62)
Net profit/(loss)	<b>(4,262)</b>	(2,303)

The prior year balance in the SOFA has been restated to reflect the fact that this expenditure is now separately identified in the consolidated RHC Appeal Ltd accounts.

## 9 Care Services

	Army Prize Money and Legacy Fund			Total Group Funds	Prior Year Total Group
	Grant in Aid	Unrestricted Funds	Restricted Funds		
	Unrestricted Funds			2011	2010
	£	£	£	£	£
Staff costs	2,675,066	232	–	2,675,298	2,528,610
Staff support and training	21,809	2,000	–	23,809	64,526
Direct expenses	54,305	1,385	–	55,690	38,596
Office overheads	27,581	0	–	27,581	22,842
Travel and I/P Entertainment	8,311	575	–	8,886	11,062
Professional Fees	22,066	–	–	22,066	16,560
<b>Total</b>	<b>2,809,138</b>	<b>4,192</b>	<b>0</b>	<b>2,813,330</b>	<b>2,682,196</b>

The above costs were incurred in the care of in-pensioners in the infirmary, and in providing outpatient care. The increase in costs reflects the initial high use of agency staff until directly employed staff could be employed.

## 10 Welfare and ceremonial costs

	Army Prize Money and Legacy Fund			Total Group Funds	Prior Year Total Group
	Grant in Aid	Unrestricted Funds	Restricted Funds		
	Unrestricted Funds			2011	2010
	£	£	£	£	£
Staff costs	502,717	–	–	502,717	775,223
Staff support and training	91,202	–	–	91,202	87,194
Direct expenses	1,623	104,009	8,335	113,967	108,021
Office overheads	4,030	194	–	4,224	9,118
Travel	12,571	2,602	91,020	106,193	107,702
Publicity	31,948	326	–	32,274	37,843
<b>Total</b>	<b>644,091</b>	<b>107,131</b>	<b>99,355</b>	<b>850,577</b>	<b>1,125,101</b>

The above costs, which are specifically related to In-Pensioner welfare, were incurred in the Adjutant's Department. The costs have declined since last year, because the prior year costs included security staff for a large part of the year.

**11 Facilities Management Costs**

	Army Prize Money and Legacy Fund			Total Group Funds	Prior Year Total Group
	Grant in Aid	Unrestricted Funds	Restricted Funds	2011	2010
	Unrestricted Funds				
	£	£	£	£	£
Staff costs	2,918,869	-	-	2,918,869	2,754,843
Staff support and training	10,776	-	-	10,776	11,966
Direct expenses	1,951,092	230,780	2,595	2,184,467	1,946,394
Office overheads	40,665	-	-	40,665	36,428
Travel	1,954	1,083	-	3,037	3,630
Professional Fees	1,633	207,215	-	208,848	9,981
Works maintenance	1,367,207	1,058,487	-	2,425,694	2,898,663
<b>Total</b>	<b>6,292,196</b>	<b>1,497,565</b>	<b>2,595</b>	<b>7,792,356</b>	<b>7,661,905</b>

This department provides all support services for the Royal Hospital Chelsea ranging from security to property management. This is its first full year of providing security for the Royal Hospital, which was contracted out during the course of the year. This service has contributed to the increase in staff costs and to the increase in direct costs.

**12 Administrative Support and Central Costs**

	Army Prize Money and Legacy Fund			Total Group Funds	Prior Year Total Group
	Grant in Aid	Unrestricted Funds	Restricted Funds	2011	2010
	Unrestricted Funds				
	£	£	£	£	£
Staff costs	772,670	8,448	-	781,118	879,572
Staff support and training	56,122	7,948	-	64,070	104,529
Direct expenses	454,906	58,452	-	513,358	654,649
Office overheads	48,871	506	-	49,377	43,200
Travel	770	13,751	-	14,521	11,606
Publicity	-	0	-	0	918
Bank Charges	45	112	-	157	110
Pension finance costs	24,000	-	-	24,000	26,000
Negative Past Service Costs – Pension Scheme	(24,000)	-	-	(24,000)	0
<b>Total</b>	<b>1,333,384</b>	<b>89,217</b>	<b>0</b>	<b>1,422,601</b>	<b>1,720,584</b>

The above costs include centrally controlled costs and the Headquarters costs of the Royal Hospital. These costs have been substantially reduced from last year. The prior year figure included an HMRC charge, which is not present this year. It also included substantially more compensation payments. There has been more accuracy this year in ensuring that costs booked to this heading are genuine administrative support and central costs. Please see Note 29 for further details of the Pension Finance Costs and the Negative Past Service Costs,

### 13 Development Directorate

The costs of the Development Directorate equate to the Costs of Generating Voluntary Income, which are covered in Note 7 above.

### 14 Projects Office

	Army Prize Money and Legacy Fund			Total Group Funds	Prior Year Total Group
	Grant in Aid	Unrestricted Funds	Restricted Funds	2011	2010
	Unrestricted Funds	Unrestricted Funds	Restricted Funds	2011	2010
	£	£	£	£	£
Staff costs	-	-	-	-	0
Staff support and training	-	-	-	-	0
Direct expenses	-	-	-	-	85,048
Office overheads	-	-	-	-	0
Travel	-	-	-	-	0
Professional charges	-	-	-	-	4,037
Works maintenance	-	-	-	-	41,939
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>131,024</b>

The Projects office has not existed as a discrete entity since 2008/09. However, some costs principally relating to Furniture, Fittings and Equipment for the Margaret Thatcher Infirmary were charged to this cost centre in 2009/10, hence the entries in the prior year comparator.

### 15 Governance costs

	Army Prize Money and Legacy Fund			Total Group Funds	Prior Year Total Group
	Grant in Aid	Unrestricted Funds	Subsidiaries Restricted Funds	2011	2010
	Unrestricted Funds	Unrestricted Funds	Restricted Funds	2011	2010
	£	£	£	£	£
Audit Fees	<b>40,283</b>	<b>37,738</b>	-	<b>78,021</b>	69,427
Surveyors' Fees	-	<b>13,577</b>	-	<b>13,577</b>	2,349
Accountancy Fees	-	<b>3,737</b>	-	<b>3,737</b>	
Consultancy Fees	<b>26,225</b>	<b>8,686</b>	-	<b>34,911</b>	19,199
Legal Fees	<b>12,003</b>	<b>2,454</b>	-	<b>14,457</b>	13,227
Limited Company Subsidiaries	-	-	<b>27,498</b>	<b>27,498</b>	30,420
<b>Total</b>	<b>78,511</b>	<b>66,192</b>	<b>27,498</b>	<b>172,201</b>	<b>134,622</b>

The audit fees include the costs of internal and external audit. The actual fee charged by the National Audit Office for the audit of the Hospital's consolidated financial statements was £32,000. (£30,000 in 2009/10).

**16 Staff Costs and numbers; Commissioners' Emoluments**

Staff costs within the Royal hospital are as follows:

	<b>Grant in Aid Fund</b>	<b>Army Prize Money and Legacy Fund</b>	<b>Total Funds 2011</b>	Total Funds 2010
	£	£	£	£
Salaries and wages	<b>5,031,826</b>	<b>94,668</b>	<b>5,126,494</b>	5,260,492
Social security costs	<b>364,845</b>	<b>4,640</b>	<b>369,485</b>	374,760
Pension costs	<b>779,667</b>	<b>10,549</b>	<b>790,216</b>	775,978
Sub-total	<b>6,176,338</b>	<b>109,857</b>	<b>6,286,195</b>	6,411,230
Casual and agency pay	<b>692,984</b>	<b>0</b>	<b>692,984</b>	600,778
In-Pensioner pay	<b>89,048</b>	<b>0</b>	<b>89,048</b>	85,873
<b>Total</b>	<b><u>6,958,370</u></b>	<b><u>109,857</u></b>	<b><u>7,068,227</u></b>	<u>7,097,881</u>

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

	<b>Grant in Aid Fund</b>	<b>Army Prize Money and Legacy Fund</b>	<b>Total Funds 2011</b>	Total Funds 2010
	£	£	£	£
Care Services	<b>2,675,066</b>	<b>232</b>	<b>2,675,298</b>	2,528,610
Welfare and ceremonial costs	<b>591,765</b>	<b>-</b>	<b>591,765</b>	861,096
Facilities Management	<b>2,918,869</b>	<b>-</b>	<b>2,918,869</b>	2,754,843
Management and Administration	<b>772,670</b>	<b>8,448</b>	<b>781,118</b>	879,572
Projects	<b>-</b>	<b>-</b>	<b>0</b>	0
Development Directorate	<b>-</b>	<b>101,177</b>	<b>101,177</b>	73,760
<b>Total</b>	<b><u>6,958,370</u></b>	<b><u>109,857</u></b>	<b><u>7,068,227</u></b>	<u>7,097,881</u>

The staff costs per Department reflect the pay, superannuation and National Insurance costs of the staff employed in those Departments.

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

	<b>Part time</b>	<b>Full time</b>	<b>2011</b>	2010
Care Services	<b>4</b>	<b>67</b>	<b>71</b>	76
Welfare and Ceremonial	<b>1</b>	<b>13</b>	<b>14</b>	24
Facilities Management	<b>5</b>	<b>106</b>	<b>111</b>	104
Management and Administration	<b>3</b>	<b>15</b>	<b>18</b>	18
Development Directorate	<b>1</b>	<b>12</b>	<b>13</b>	13
	<b><u>14</u></b>	<b><u>213</u></b>	<b><u>227</u></b>	<u>235</u>

*Higher paid employees*

Including the Governor and Lieutenant Governor, the number of employees whose remuneration was over £60,000 in 2010/11 (excluding pension contributions) was as follows:

	<b>2011</b>	2010
	<b>Number</b>	Number
£60,000 to £69,999	<b>4</b>	3
£70,000 to £79,999	<b>1</b>	1
	<b>5</b>	4

All of these staff contribute to the PCSPS defined benefits scheme.

*Commissioners' emoluments*

None of the Commissioners receive any remuneration for acting as Commissioners. Travel expenses of £1,145 were claimed during the year by four Commissioners. 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. This scheme is closed to new members. The Secretary to the Board of Commissioners is not a trustee, but has agreed to a voluntary disclosure of his emoluments.

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

	Actual Salary	Annualised Salary	Real increase in pension at 60 during the year	Total accrued pension at 60 at the year end	Cash equivalent transfer value at start date	Cash equivalent transfer value at end date	Real increase in cash equivalent transfer value
		£000	£000	£000	£000	£000	£000
General The Lord Walker Governor and the highest paid Commissioner (resigned 15 February 2011)	70–75	75–80	0–2.5	5–7.5	79	97	15
Major General APN Currie Lieutenant Governor and Chief Executive	65–70	65–70	0–2.5	5–7.5	99	120	17
Paul Hatt Esq Secretary to the Board of Commissioners (not a trustee but disclosed Voluntarily)	60–65	60–65	0–2.5	0–2.5	4	25	19

The current pension scheme is the Principal Civil Service Pension Scheme.

**17 Transfers between funds**

No transfers took place between the Grant in Aid Fund and the Army Prize Money and Legacy Fund in 2010/11. Expenditure from the RHC Chapel Deposit, which is treated as a restricted fund in the balance sheet was treated as a transfer from restricted to unrestricted funds. In the consolidated SOFA donations from RHC Appeal Ltd have been shown as transfer to APML to avoid treating the donation as both income and expenditure within the consolidated accounts.

## **18 Tangible fixed assets**

The main development with regard to the book value of fixed assets has been the capitalisation of assets under construction with a total value of £3,981,810 and additional assets under construction with a value of £2,099,748. There has been a reclassification of heritage and non- heritage assets in line with FRS30. The opening balances in the statements have been restated to reflect the change in classification. This has led to a reduction in the opening balance for land and buildings heritage assets from £538,958,157 to £210,000. Exhibits were reclassified as heritage assets with an opening balance of £151,065. There have been corresponding adjustments in the opening balances for non – heritage assets. Throughout RHC there are a considerable number of paintings and artefacts which are being valued and will be included as a heritage assets in the 2011/12 accounts. These assets reflect both the history of RHC and its long association with the Army. Some are of historic, military or artistic significance. There would have been disproportionate cost in obtaining a valuation for the 2010/11 accounts.

The opening balance for vehicles has been amended in respect of two fully depreciated assets that were disposed of in 2009/10. This has resulted in the opening gross cost for vehicles and the opening depreciation for vehicles both being reduced by £24,487.

Plant and machinery within Grant in Aid includes leased laundry equipment with a gross cost of £325,414 and depreciation of £286,696. The finance lease is due to expire in 2011/12. Details of the sums remaining to be paid are in Note 30.

**Tangible fixed assets – heritage and non heritage**

	Assets in Course of Construction	Land and buildings Dwelling	Land and Buildings Non-Dwelling	Plant, Machinery and Equipment	Vehicles	Exhibits	Total
	£	£	£	£	£	£	£
<b>Cost or valuation</b>							
At 1 April 2010	3,534,463	448,443,413	139,909,432	2,414,190	140,579	151,065	594,593,142
Additions at cost	2,099,748			434,283	12,467	41,599	2,588,097
Re-Lifed Assets		.					0
Reclassifications	(3,981,810)	3,591,018	368,582				(22,210)
Disposals							0
At 31 March 2011	<u>1,652,401</u>	<u>452,034,431</u>	<u>140,278,014</u>	<u>2,848,473</u>	<u>153,046</u>	<u>192,664</u>	<u>597,159,029</u>
<b>Depreciation</b>							
At 1 April 2010	0	13,926,098	7,660,523	868,868	51,391	0	22,506,880
Charge for year	0	5,652,507	1,781,265	221,007	10,451	0	7,665,230
Re-Lifed Assets	0	0	0	0	0	0	0
Reclassifications	0	0	0	0	0	0	0
Disposals in year	0	0	0	0	0	0	0
At 31 March 2011	<u>0</u>	<u>19,578,605</u>	<u>9,441,788</u>	<u>1,089,875</u>	<u>61,842</u>	<u>0</u>	<u>30,172,110</u>
<b>Net book value</b>							
At 1 April 2010	<u>3,534,463</u>	<u>434,517,315</u>	<u>132,248,909</u>	<u>1,545,322</u>	<u>89,188</u>	<u>151,065</u>	<u>572,086,262</u>
At 31 March 2011	<u>1,652,401</u>	<u>432,455,826</u>	<u>130,836,226</u>	<u>1,758,598</u>	<u>91,204</u>	<u>192,664</u>	<u>566,986,919</u>

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

Grant in Aid Fund				461,008	39,950		500,958
Army Prize Money and Legacy Fund	1,652,401	432,455,826	130,815,426	1,254,733	51,254	192,664	566,422,304
Subsidiaries			20,800	42,857			63,657
	<u>1,652,401</u>	<u>432,455,826</u>	<u>130,836,226</u>	<u>1,758,598</u>	<u>91,204</u>	<u>192,664</u>	<u>566,986,919</u>



**Tangible fixed assets – heritage**

	Assets in Course of Construction	Land and buildings Dwelling	Land and Buildings Non-Dwelling	Plant, Machinery and Equipment	Vehicles	Exhibits	Total
	£	£	£	£	£	£	£
<b>Cost or valuation</b>							
At 1 April 2010	0	0	210,000	0	0	151,065	361,065
Additions at cost						41,599	41,599
Re-Lifed Assets							0
Reclassifications							0
Disposals							0
At 31 March 2011	<u>0</u>	<u>0</u>	<u>210,000</u>	<u>0</u>	<u>0</u>	<u>192,664</u>	<u>402,664</u>
<b>Depreciation</b>							
At 1 April 2010	0	0	0	0	0	0	0
Charge for year							
Re-lifed assets							
Reclassifications							
Disposals in year							
At 31 March 2011	0	0	0	0	0	0	0
<b>Net book value</b>							
At 1 April 2010	<u>0</u>	<u>0</u>	<u>210,000</u>	<u>0</u>	<u>0</u>	<u>151,065</u>	<u>361,065</u>
At 31 March 2011	<u>0</u>	<u>0</u>	<u>210,000</u>	<u>0</u>	<u>0</u>	<u>192,664</u>	<u>402,664</u>

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

Grant in Aid Fund							0
Army Prize Money and Legacy Fund			210,000			192,664	402,664
Subsidiaries							0
	<u>0</u>	<u>0</u>	<u>210,000</u>	<u>0</u>	<u>0</u>	<u>192,664</u>	<u>402,664</u>

**Tangible fixed assets – non-heritage**

	Assets in Course of Construction	Land and buildings Dwelling	Land and Buildings Non-Dwelling	Plant, Machinery and Equipment	Vehicles	Exhibits	Total
	£	£	£	£	£	£	£
<b>Cost or valuation</b>							
At 1 April 2010	3,534,463	448,443,413	139,699,432	2,414,190	140,579		594,232,077
Additions at cost	2,099,748			434,283	12,467		2,546,498
Re-lifed assets							0
Reclassifications	(3,981,810)	3,591,018	368,582				(22,210)
Disposals							0
At 31 March 2011	<u>1,652,401</u>	<u>452,034,431</u>	<u>140,068,014</u>	<u>2,848,473</u>	<u>153,046</u>	<u>0</u>	<u>596,756,365</u>
<b>Depreciation</b>							
At 1 April 2010	0	13,926,098	7,660,523	868,868	51,391	0	22,506,880
Charge for year		5,652,507	1,781,265	221,007	10,451		7,665,230
Re-Lifed Assets							0
Reclassifications							0
Disposals in year							0
At 31 March 2011	<u>0</u>	<u>19,578,605</u>	<u>9,441,788</u>	<u>1,089,875</u>	<u>61,842</u>	<u>0</u>	<u>301,172,110</u>
<b>Net book value</b>							
At 1 April 2010	<u>3,534,463</u>	<u>434,517,315</u>	<u>132,038,909</u>	<u>1,545,322</u>	<u>89,188</u>	<u>0</u>	<u>571,725,197</u>
At 31 March 2011	<u>1,652,401</u>	<u>432,455,826</u>	<u>130,626,226</u>	<u>1,758,598</u>	<u>91,204</u>	<u>0</u>	<u>566,584,255</u>

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

Grant in Aid Fund				461,008	39,950		500,958
Army Prize Money and Legacy Fund	1,652,401	432,455,826	130,605,426	1,254,733	51,254	0	566,019,640
Subsidiaries			20,800	42,857			63,657
	<u>1,652,401</u>	<u>432,455,826</u>	<u>130,626,226</u>	<u>1,758,598</u>	<u>91,204</u>	<u>0</u>	<u>566,584,255</u>

**19 Listed investments**

	2011	2010
	£	£
Market value at 1 April 2010	<b>11,165,895</b>	7,032,409
Additions at cost	<b>3,384,986</b>	4,422,254
Cost of investments sold	<b>(3,406,880)</b>	(2,505,832)
Unrealised revaluation gain/(loss)	<b>605,122</b>	2,485,897
Withdrawals from Capital Projects Fund		(268,315)
Fees on Capital Projects Fund		(518)
Market value at 1 April 2011	<b>11,749,123</b>	11,165,895
Historical cost at 1 April 2010	<b>9,807,782</b>	8,160,195
Historical cost as at 1 April 2011	<u><b>9,785,888</b></u>	<u>9,807,782</u>

The increase in the value of the investments reflects the continued recovery of the markets and the active management of the investments.

The geographic distribution of investments was as follows:

	Market value	Book Cost
	£	£
UK Bonds	<b>1,378,347</b>	<b>1,368,948</b>
Non-UK Bonds	<b>98,939</b>	<b>87,824</b>
UK Equities	<b>5,832,257</b>	<b>4,773,525</b>
Overseas Equities	<b>4,131,405</b>	<b>3,189,694</b>
Property	<b>48,175</b>	<b>105,897</b>
Cash Fund	<b>260,000</b>	<b>260,000</b>
	<u><b>11,749,123</b></u>	<u><b>9,785,888</b></u>

All investments belong to the Army Prize Money and Legacy fund.

**20 Investment Property**

	2011	2010
	£	£
Freehold land and buildings at valuation	<u><b>21,910,000</b></u>	<u><b>21,910,000</b></u>

The Hospital's freehold investment property was valued by Savills as at 1 April 2007 on the open market value basis, in accordance with RICS guidance. All investment properties belong to the Army Prize Money and Legacy Fund.

**21 Stocks**

	<b>Grant in Aid Fund</b>	<b>Army Prize Money and Legacy Fund</b>	<b>Hospital Funds 2011 (Sub-total)</b>	<b>Subsidiaries Restricted Funds</b>	<b>Total Funds 2011</b>	<b>Total Funds 2010</b>
	£	£	£	£	£	£
Trading stocks	–	–		<b>158,932</b>	<b>158,932</b>	113,345
Total	<b>0</b>	<b>0</b>	<b>0</b>	<b>158,932</b>	<b>158,932</b>	113,345

Stock is entirely held for trading purposes by the subsidiaries of RHC Appeal Ltd.

**22 Debtors**

	<b>Grant in Aid Fund</b>	<b>Army Prize Money &amp; Legacy Fund</b>	<b>Hospital Funds 2011 (Sub-total)</b>	<b>Subsidiaries</b>	<b>Total Funds 2011</b>	<b>Total Funds 2010</b>
	£	£	£	£	£	£
Sundry debtors	<b>7,691</b>	<b>30,326</b>	<b>38,017</b>	<b>549,826</b>	<b>587,843</b>	146,313
Prepayments	<b>82,718</b>	<b>0</b>	<b>82,718</b>	<b>578</b>	<b>83,296</b>	66,672
Accrued Income	<b>0</b>	<b>76,534</b>	<b>76,534</b>	<b>10,624</b>	<b>87,158</b>	8,958
	<b>90,409</b>	<b>106,860</b>	<b>197,269</b>	<b>561,028</b>	<b>758,297</b>	221,943

This table excludes intercompany balances. The growth in sundry debtors is entirely due to a large rental payment being due at year end. The debtor cleared this balance in April. The accrued income represents a confirmed donation that is to be received by the APML.

**23 Cash at bank and in hand**

	<b>Grant in Aid Fund</b>	<b>Army Prize Money and Legacy Fund</b>	<b>Hospital Funds 2011 (Sub-total)</b>	<b>Subsidiaries</b>	<b>Total Funds 2011</b>	<b>Total Funds 2010</b>
	£	£	£	£	£	£
Term deposits	–	<b>2,160,000</b>	<b>2,160,000</b>		<b>2,160,000</b>	695,352
Other accounts cash in hand	<b>9,254</b>	<b>1,515,059</b>	<b>1,524,313</b>	<b>547,423</b>	<b>2,071,736</b>	4,437,196
	<b>805</b>	<b>1,326</b>	<b>2,131</b>	<b>6,535</b>	<b>8,666</b>	260,529
Total	<b>10,059</b>	<b>3,676,385</b>	<b>3,686,444</b>	<b>553,958</b>	<b>4,240,402</b>	5,393,077

The reduction in cash at bank and in hand reflects the continued expenditure on the development programme and the reduction in donations to RHC Appeal Ltd. With improvements in the interest rates on offer for term deposits increased use of those deposits was made in 2010/11. The prior year holding of cash in hand was unusually high and the current year shows a return to a more normal balance.

**24 Creditors: amounts falling due within one year**

	<b>Grant in Aid Fund</b>	<b>Army Prize Money and Legacy Fund</b>	<b>Hospital Funds 2011 (Sub-total)</b>	<b>Subsidiaries</b>	<b>Total Funds 2011</b>	<b>Total Funds 2010</b>
	£	£	£	£	£	£
Sundry Creditors	(71,772)	(54,860)	(126,632)	-	(126,632)	(152,915)
Accrued charges	(264,245)	(476,922)	(741,167)	(42,736)	(783,903)	(877,533)
Taxation creditors	(130,035)	-	(130,035)	(25,483)	(155,518)	(240,829)
Deferred income	-	(54,796)	(54,796)	(650,034)	(704,830)	(643,270)
Finance Lease	(38,740)	-	(38,740)	-	(38,740)	(46,488)
Other Creditors	(85,480)	(141,734)	(227,214)	(23,981)	(251,195)	(335,983)
	<u>(590,272)</u>	<u>(728,312)</u>	<u>(1,318,584)</u>	<u>(742,234)</u>	<u>(2,060,818)</u>	<u>(2,297,018)</u>

This table excludes intercompany balances. The reduction in accrued charges reflects greater efficiency in clearing bills before the end of the financial year. The prior year figure for taxation creditors was unusually high because of an under-collection of tax and NI, for which payment has now been made in full to HMRC. Deferred income is concentrated in CP(RH) Ltd, where it represents advance payment for events.

**25 Creditors Falling Due in Over One Year**

	<b>Grant in Aid Fund</b>	<b>Army Prize Money and Legacy Fund</b>	<b>Hospital Funds 2011 (Sub-total)</b>	<b>Subsidiaries</b>	<b>Total Funds 2011</b>	<b>Total Funds 2010</b>
	£	£	£	£	£	£
Finance Leased Assets	-	-	-	-	-	(38,740)
In-Pensioners' Club capital loan	-	-	-	-	-	(201,671)
Chapel Fund		(36,012)	(36,012)		(36,012)	(74,450)
Advance Funeral Payments		(12,000)	(12,000)		(12,000)	
	<u>-</u>	<u>(48,012)</u>	<u>(48,012)</u>	<u>-</u>	<u>(48,012)</u>	<u>(314,861)</u>

The remaining sums due on the finance lease all fall within one year and it no longer shows as a long term creditor. The in-pensioners club loan was donated to the APML during the course of the year. The chapel deposit has reduced in value due to the purchase of a stained glass window and a box organ, which has been partially offset by incoming funds.

## 26 Provisions

	Grant in Aid Fund	Army Prize Money and Legacy Fund	Hospital Funds 2011 (Sub-total)	Subsidiaries	Total Funds 2011	Total Funds 2010
	£	£	£	£	£	£
Opening Balance		(33,426)	(33,426)		(33,426)	(74,236)
Unwinding Discount						(711)
Change in Discount Rate						(298)
Used in Year		21,255	21,255		21,255	58,270
Reversed in Year		12,171	12,171		12,171	11
Provided during Year (Charged to SOFA)						(16,462)
Closing Balance		0	0	0	0	(33,426)
Due in Under One Year						(18,403)
Due Over One year						(15,023)

The APML provisions that were shown last year are now fully expended. One related to the estimated penalty charge and interest payment in respect of an underpayment of tax and National Insurance. When a payment was agreed with HMRC, £7,158 was expended. The remaining balance of £9,304 was reversed. The other provision related to a redundancy which occurred in 2008/09. A final payment was made to PCSPS in 2010/11, and the balance remaining in the provision of £2,867 was reversed.

The prior year comparator in the SOFA contains the following items from the analysis above: unwinding discount change in discount rate, reversed in year and provided during the year, coming to a total of £17,459.

### Army Prize Money and Legacy Fund Provisions

	HMRC Charges	Redundancies 2	Total
	£	£	£
As at 31 March 2011			
Opening Balance	(16,462)	(16,964)	(33,426)
Unwinding Discount			
Change in Discount Rate			
Used in Year	7,158	14,097	21,255
Reversed in Year	9,304	2,867	12,171
Provided during Year (Charged to SOFA)			
Closing Balance	0	0	0
Due in Under One Year			
Due Over One year			

## 27 Contingent Liabilities

The Royal Hospital has no contingent liabilities.

## 28 Related Party Transactions

The President of the In Pensioners Club was the Adjutant of the Royal Hospital, and the Vice President and officers of the Club were drawn from the Adjutant's staff and the In Pensioners. On the winding up of the club a donation of £201,670 was made to the Royal Hospital Chelsea, being a sum previously on loan to the Royal Hospital.

The previous Governor was Chairman of the Army Benevolent Fund. During the course of the year the Royal hospital itself had no transactions with the ABF (2009/10: £6). The trading subsidiary CP(RH) Ltd had transactions with the Army Benevolent fund totalling £7,111 (2009/10: £7,750). These related to meetings held at the Royal Hospital Chelsea and to a carol service.

The register of interests for Commissioners and Senior Staff is updated annually at the end of the financial year.

## 29 Pensions

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

### *Principal Civil Service Pension Scheme (PCSPS)*

Pension benefits for 159 members of staff are provided through the Civil Service pensions arrangements. The Principal Civil Service Pension Scheme (PCSPS) is an unfunded, defined benefit, contributory, public service occupational Pension scheme. The PCSPS covers four pension arrangements. New entrants joining the Civil Service from 30 July 2007 are offered membership of Nuvos, a whole career pension with a pension age of 65. Before 30 July 2007 those joining the Civil Service would have been eligible to join one of the previous final salary arrangements of Premium, Classic and Classic Plus. Money purchase pensions known as Partnership are available as an alternative for employees joining on or after 1 October 2002. Partnership is delivered through employer sponsored stakeholder pensions from a choice of pension providers.

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 2007. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation ([www.civilservice-pensions.gov.uk](http://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 2010/11, employers' contributions of £660,886 were payable to the PCSPS (2009/10: £651,971) at one of four rates in the range of 16.7% to 24.3% of pensionable pay, based on salary bands. Employer contributions are to be reviewed every four years following a full scheme valuation by the Government Actuary. Rates will remain the same next year. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

### *National Health Service Superannuation Scheme (NHSSS)*

The Hospital has 69 members of staff 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 five years. The last full valuation took place as at 31st March 2008. 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](http://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 Hospital is required to pay an employer's contribution, currently 14% of pensionable pay, as specified by the Secretary of State for Health. For 2010/11, employers' contributions of £200,399 were payable to the NHS Pension Scheme (£202,163 for 2009/10). These contributions are charged to operating expenses as and when they become due.

Employees pay between 5% and 8.5% of pensionable pay. Employer and employee contributions are used to defray the cost of providing the scheme benefits. These are guaranteed by the Exchequer, with the liability to pay benefits falling to the Secretary of State, not to the Royal Hospital Chelsea. Index linking costs under the Pensions (Increase) Act 1971 is met directly by the Exchequer. The scheme is notionally funded. Scheme accounts are prepared annually by the Department of Health and are examined by the Comptroller and Auditor General.

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

### Unfunded Scheme

Former Governors, Lieutenant Governors and Captains of Invalids are members of an unfunded defined benefit scheme. The scheme has 15 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 £41,779 (£43,312 in 2009/10).

### 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 2011, by an independent qualified actuary, using the key FRS17 assumptions set out in the following table, which reflect the nature of the liabilities. These pensions are all currently in payment and increase with price inflation.

In July 2010, the government announced that future statutory minimum pension indexation would be measured by the Consumer Prices Index, rather than the Retail Prices Index. This has been reflected in the Royal Hospital's accounts and a past service credit of £24,000 has been recognised as a result, included in the amounts allocated across the resources expended categories of the SOFA in the figures below.

	<b>31 March 2011</b>	31 March 2010
<b>Assumptions</b>		
Price inflation/pension increases	<b>2.7% pa</b>	3.5% pa
Discount rate	<b>5.3% pa</b>	5.3% pa

On the basis of the assumptions used for life expectancy, a male pensioner currently aged 60 would be expected to live for a further 28 years (2010: 28 years).

The following table sets out as at 31 March 2011 the present value of the FRS17 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.

<b>Balance sheet at 31 March</b>	<b>2011</b>	2010	2010	2008	2007
	<b>£'000</b>	£'000	£'000	£'000	£'000
Gross pension liability	<b>432</b>	474	423	466	467

The gross pension liability resides within the Royal Hospital Chelsea's unrestricted funds. The only impact on the resources available for general application is the cost of the annual payments to the pensioners (£42K in 2010/11).

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

	<b>Year to 31 March 2011</b>	Year to 31 March 2010
	<b>£'000</b>	£'000
Gross pension liability at year start	<b>474</b>	423
Pensions paid	<b>(42)</b>	(44)
Interest cost	–	26
Actuarial (gain)/loss on defined benefit pension scheme	–	69
Gross pension liability at year end	<b>432</b>	474



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

	<b>Year to 31 March 2011</b>	Year to 31 March 2010
	<b>£'000</b>	£'000
Interest on gross pension liability	<b>24</b>	26
Past Service Credit Total pension expense	<b>(24)</b>	-
	<u>-</u>	<u>26</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 2011 is £nil (2010: a loss of £69,000). The cumulative amount recognised in the "gains and losses" categories of the SOFA since 2003 [as required by paragraph 95 of FRS17] is a loss of £105,000 (2010: loss of £105,000).

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

	<b>Year to 31 March 2011</b>	<b>Year to 31 March 2010</b>	<b>Year to 31 March 2009</b>	<b>Year to 31 March 2008</b>	<b>Year to 31 March 2007</b>
Experience gains/(losses) on liabilities (£'000)	<b>(4)</b>	(4)	43	(9)	(2)
Percentage of the present value of liabilities	<b>-1%</b>	-1%	10%	-2%	(0%)

### 30 Financing lease

All remaining sums within GIA in respect of the finance lease for laundry equipment fall due in less than one year.

	<b>2011</b>	2010
	<b>£</b>	£
Within one year	<b>38,740</b>	46,488
Two to five years	-	38,740
Total	<b>38,740</b>	85,228

### 31 Operating leases

Rentals payable under operating leases are charged to the Statement of Financial Activities as incurred over the term of the lease. These leases are principally in respect of office equipment. In 2010/11 payments of £59,189 were made in respect of operating leases.

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

	<b>Land and Buildings 2011</b>	<b>Other 2011</b>	Land and Buildings 2010	Other 2010
	<b>£</b>	<b>£</b>	£	£
<b>Operating leases which expire:</b>				
Within one year	-	-	-	6,938
In the second to fifth years inclusive	-	<b>61,501</b>	-	55,080
Over five years	-	-	-	-

### 32 Capital commitments

	2011	2010
	£	£
Authorised and contracted	<u>3,536,243</u>	<u>518,805</u>
	<u>3,536,243</u>	<u>518,805</u>

Capital commitments have increased since last year, because the fees contracts for the Long Wards Redevelopment Project have been signed, as has the contract to replace the main boilers.

### 33 Fund Accounting

**Unrestricted Funds.** The general funds consist of the accumulated surplus or deficit on the Statement of Financial Activities. They are available for use at the discretion of the Commissioners in furtherance of the objectives of the Royal Hospital Chelsea. No surplus is allowed to accumulate within Grant-in Aid in accordance with the Royal Hospital Chelsea's Financial Memorandum with MOD.

**Restricted Funds.** These funds are subject to specific restriction made by the donor, including the Chapel Deposit which represents accumulated donations in respect of the chapels on site.

**Designated Funds.** There are at present no designated funds within the Group.

### 34 Derivatives and Other Financial Instruments

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

The Royal Hospital derives a significant proportion of its income from quoted investments. These are managed on the Hospital's behalf by professional fund managers. A sub-committee of the Board of Commissioners 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.

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

#### *Interest Rate Risk*

The 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 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

General Sir Redmond Watt KCB KCVO CBE was appointed as Governor from 1 June 2011.

These accounts are authorised for issue on 15 July 2011.

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