

Royal Hospital Chelsea Account 2012-13

Royal Hospital Chelsea Account 2012-13

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Officers and Commissioners

Chairman of the Board of Commissioners

HM Paymaster General

Ex-officio Commissioners (as at 31 March 2013)

HM Paymaster General – Rt Hon Francis Maude MP
Minister of State for the Armed Forces – Rt Hon Andrew Robathan MP
Minister for Defence Personnel, Welfare and Veterans – Rt Hon Mark Francois MP
Director General Resources Land Forces Command – David Stephens Esq
Director General of Army Medical Services – Major General Carmichael MBE QHDS
Assistant Chief of the General Staff – Major General D M Cullen OBE
Governor, Royal Hospital Chelsea – General Sir Redmond Watt KCB KCVO CBE DL
Lieutenant Governor, Royal Hospital Chelsea – Major General APN Currie CB

Specially Appointed Commissioners

S Corbyn Esq
D McDonough Esq OBE
M Waterson Esq CBE (Deputy Chairman)
A Titchmarsh Esq MBE VMH DL
J Fenwick Esq QC
Sir Thomas Hughes-Hallett (appointed 1 September 2012)
Professor Lord Kakkar (appointed 1 September 2012)
D Rosier Esq (appointed 1 September 2012)
Mrs Angela Gillibrand (appointed 1 September 2013)
Dame Barbara Monroe (appointed 1 September 2013)
Professor Dame Janet Husband DBE FMedSci FRCP FRCR (term ended 31 August 2013)
Sir Michael Jenkins KCMG (deceased)
R Moore Esq (term ended 31 August 2012)
Lord Bilimoria CBE DL (term ended 31 August 2012)
Mrs S Phillips OBE DL (term ended 31 August 2012)

Accounting Officer and Chief Executive Officer

Major General APN Currie CB (appointed Accounting Officer 1 April 2013)

Secretary

PWD Hatt Esq

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Annual Report of the Commissioners

Introduction

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

This report should be read in conjunction with the Governance Statement on page 16 which outlines in detail the structure and governance of the Royal Hospital Chelsea and its Board.

Governing documents and charitable objectives

The statutory authority for the Royal Hospital Chelsea is founded on Letters Patent from the Crown, which vest responsibility for its management in a Board of Commissioners. The current Letters Patent were issued on 21 November 2003. The Royal Hospital Chelsea is not registered with the Charity Commission, but is recognised as having Charitable Status by HMRC.

The principal objectives of the Royal Hospital Chelsea are the care of the In-Pensioners and the conservation of its historic buildings and grounds. The cost of major capital projects and the upkeep of the grounds is not met from the 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. It also pays for those maintenance and other running costs that are not covered by the Grant in Aid.

The Royal Hospital Chelsea provides those in its care with 24-hour cover for 365 days of the year. The number of staff at the Royal Hospital Chelsea were 224 (2012: 226) full and part-time of whom 81 (2012: 81) are medical, nursing and care staff.

An annual Grant in Aid from the Ministry of Defence provides in large part, but by no means entirely, for the maintenance of the Royal Hospital Chelsea 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 Chelsea. There is also a minimum charge for those who do not have such pensions or whose pensions are very small. The Grant in Aid is governed by a Financial Framework document signed on 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 Chelsea's aims and objectives and in planning its future activities. In particular the Commissioners consider how planned activities contribute to the aims and objectives that they have set.

The Royal Hospital Chelsea provides sheltered accommodation for Army veterans aged 65 or over and has care home and hospice facilities for use by former occupants of the sheltered accommodation, and for others who may, exceptionally, be admitted directly into care. In addition to providing accommodation, food and nursing care, the Royal Hospital Chelsea provides every opportunity for residents to engage in a range of activities, as well as participating in representational and ceremonial activities and establishing constructive links with today's soldiers and the wider veteran community. As a result of a recent initiative they are also increasingly making a contribution to the well-being of other groups of veterans, including those in prison and homeless, through an outreach programme.

The Commissioners' current aims include the modernisation of the In-Pensioners' accommodation so that it remains fit for purpose in the 21st Century, and the restoration and maintenance of the heritage buildings and grounds. A new care home (the Margaret Thatcher Infirmary) has already been built and the programme to upgrade the Long Ward accommodation is well underway and will be completed in FY 2015-16. Further improvements to the estate are planned and have been endorsed in principle by the Board.

Monitoring of performance

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

Employees

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

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

Aims, Objectives and Activities

As noted above the principal standing objectives of the Royal Hospital Chelsea are the care of the In-Pensioners and the conservation of its historic buildings and grounds. In addition it is currently engaged in a major programme to upgrade the accommodation.

Principal activities of the year

The Margaret Thatcher Infirmity has been open for over 4 years and provides outstanding care facilities for the In-Pensioners. During the past year work was undertaken to transform the Campbell Ward in order to enhance our ability to care for those In-Pensioners with dementia.

Work on the Long Ward modernisation programme has continued and during the year under review the North East Pavilion was completed, making a further 23 en-suite rooms available for use. Work is now well underway on the East Wing and remains on time and within budget.

During the year the Board of Commissioners sold a long lease on Gordon House in order to raise the residual funds required to pay for the remainder of the Long Ward modernisation programme. The sale generated a surplus which, under the terms of the S106 from the Council of the Royal Borough of Kensington and Chelsea, is restricted to use for future capital projects for the maintenance and improvement of the heritage site, expenditure which cannot be funded from Grant in Aid. These funds are therefore shown as restricted in the Balance Sheet.

More details on activities and achievements during the year are outlined in the Lieutenant Governor's performance review report in the next section.

Volunteers

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

Review of achievements and performance for the year 2012-13

Report from the Lieutenant Governor

Corporate Objectives 2012-13

The Corporate Objectives identify the core tasks which need to be achieved over the next 3–5 years in order to sustain progress towards the Vision. By their nature they are programmes which will take a number of years to deliver, so progress against them tends to be incremental. However, we remain confident they were right in concept and remain so; and that (with the exception of Objective 5 – see below) they are on track.

Objective 1: Providing additional services

Following decisions taken by the Board of Commissioners in January 2012 we set about examining the scope to provide a range of other services to the wider veteran community, focusing on areas of need which are not currently met, or are inadequately met, by other providers. One immediate outcome was the decision to take more veterans directly into domiciliary care, particularly those with mobility problems. To date we have admitted two In-Pensioners who would not have been taken under the previous regime. This initiative will be developed further over the coming months in parallel with Matron's work on domiciliary care.

Following consideration by the Management Board at its own away day in the Summer, the recommendation was made to the Board of Commissioners, and agreed in October 2012, that we should not, for the time being at least, open the Royal Hospital Chelsea to veterans from the other two Services, nor should we take married couples, accept In-Pensioners directly into full time nursing, or open the Royal Hospital Chelsea to younger soldiers. This last point reflected, in particular, the importance of focusing on our core business, the care of the elderly, but also the excellent provision that is made elsewhere. On the other hand it was agreed in principle that we should open the Royal Hospital Chelsea to officers, but that careful thought should be given to the timing of this initiative.

Since then, and working closely with other service charities such as the Royal British Legion and SSAFA Forces Help, and with the Services Pensions and Veterans Agency (SPVA), the focus has been on two other areas: the provision of respite care and the possibility of establishing at the Royal Hospital Chelsea a 'portal' into care for veterans of all three armed forces and of any rank. Proposals are emerging in both these areas for pilot schemes which would see us providing a limited respite care programme in the Margaret Thatcher Infirmary, and providing space on our campus for a SPVA/RBL welfare hub. This work will continue through the next financial year.

Objective 2: Long Ward modernisation programme

The programme of work remains on time and to budget, and the money released by the disposal of the Gordon House leasehold has ensured that funding for the entire programme is available. The past year has seen the completion and occupation of the North East Pavilion providing 23 additional en-suite berths, and I am pleased to report that despite major problems with asbestos and difficulties sourcing an alternative furniture supplier when the original contractor went into liquidation, only 6 per cent of the 20 per cent contingency fund was used during this phase. Work is now well underway on the East Wing. During the year we also obtained planning permission for the construction in Light Horse Court of temporary accommodation for 50 In-Pensioners, and anticipate that work will start in July 2013 with a view to occupation in early 2014 when the West Wing is due to be evacuated.

Objective 3: Business development

During the course of the year we moved ahead decisively with planning for the further development of the estate. There were two principal strands to this work. First, a vision for the improvement of the grounds (the Carter Review) has been produced and endorsed in principle by the Board, with the aim that our grounds both better reflect our history and improve the setting of the heritage buildings. Secondly, a comprehensive plan has been prepared and endorsed by the Board for the restoration/development of carefully defined areas of the estate with an eye on improving both In-Pensioner facilities and increasing opportunities for income generation in order to build progressively an endowment.

These two inextricably linked work streams now provide us with a clear yet flexible framework for further, more detailed development work which is already well underway. The immediate priorities are to produce more detailed plans for the South Terrace and for the Prince of Wales Yard. Beyond that, we have this year seen a sharp uplift in income from legacies; we have moved from a 2 day a week trial period with Central Health for the use of the hydrotherapy pool to a full time contract; and we have further developed the income streams from the Primary Care Trust.

Meanwhile negotiations with the Royal Horticultural Society over the future Chelsea Flower Show contract have been initiated, as have negotiations for the leases with Royal Borough of Kensington and Chelsea and KIDS Charity for the use of the South Grounds, both of which are due to expire in June 2014.

Objective 4: Safeguarding the heritage

This is largely covered in the section above. In addition, a condition survey covering all the buildings was completed during the year and a comprehensive, costed maintenance schedule is in operation to ensure the condition of the buildings is maintained and, where appropriate, improved.

Objective 5: The deal

During the course of the year the Board of Commissioners decided that, against the background of the Long Ward modernisation programme and other change, the time was not right to replace the existing pension surrender arrangements, which continue to operate successfully, with a new charging regime, but rather that we should continue to make incremental change where appropriate. The wider issue of a charging regime will be reviewed again in a number of years time.

Objective 6: Internal efficiency

This has remained a priority throughout the year and will continue to attract close attention. Despite our best efforts to improve energy efficiency, the past year saw a sharp increase in expenditure, a product both of substantial price increases and an exceptionally cold winter. It is also proving increasingly difficult to identify areas where further reductions can be made in staff costs, particularly in the care domain where we are constrained by regulation. Moreover, the fact that we are now taking a higher proportion of In-Pensioners directly into domiciliary care will, in time, add pressure on staff costs.

Despite that it remains an objective to contain and, where possible, drive down costs in real terms, and it will remain a Management Board priority. One area of continuing success is the procurement process, where the streamlined procedures and more rigorous disciplines introduced a few years ago continue to deliver benefits, particularly when old contracts expire and are replaced. In addition, even where it is not possible to make direct efficiencies it is often possible to improve 'productivity' through professional development and training, and this has been a continuing theme across departments.

Other in-year priorities

In-Pensioner recruitment

Having previously halted the slide towards 275, recruiting was buoyant during FY 2012-13 with numbers rising as high at one stage as 290 but generally falling in the range 280 to 285. This is about as many as we would wish to have until the Long Ward programme is complete, for the erection of even more temporary accommodation than that which is already planned (i.e. for 50 In-Pensioners) would be challenging. It is also consistent with the Board's policy, which is to hold numbers at or above 275 for the duration of the modernisation programme. During the year the Adjutant's information teams, which are now well-established, presented to 12 audiences ranging from Royal British Legion and Army Benevolent Fund audiences to a Mothers' Union in Hounslow and various Masonic lodges, and In-Pensioners now have a role presenting to SSAFA Forces Help case worker courses.

Cultural change

This has been an area of slow but steady change and there is more to be done. The most obvious progress has been in the expansion of 'outreach' to night shelters, prisons, schools, the Veterans Aid shelter in Bermondsey and the Army Recovery Centre in Tidworth. Allied to our support to Gardening Leave and Combat Stress this constitutes a considerable programme of support to others. Internally, the In-Pensioner activity programme has continued to develop, with some 70 In-Pensioners actively involved in the autumn and spring programmes. An exhibition of the work undertaken by the In-Pensioners was organised in the Margaret Thatcher Infirmary in April 2013.

Further Developments in the provision of care

The Margaret Thatcher Infirmary (MTI) has continued to evolve as a centre of excellence in the care of the elderly. In particular, during the latter part of the year, the Campbell Ward was transformed into a specialist dementia care facility and early, informal reports from the staff suggest that the benefits of this are already evident. This is being underpinned by a comprehensive dementia training programme for the staff designed to deliver a tangible change in attitudes towards the care of those suffering from this condition, and to enable staff to attain the Level 2 certificate in dementia care. The project was funded by donations raised through Royal Hospital Chelsea Appeal Ltd and came in slightly under budget. The newly renovated Campbell Ward was formally opened by the Secretary of State for Health in June 2013.

Elsewhere measurable progress has been made in the recruitment of MTI volunteers. This programme is managed by the Therapy Services team, which is able to ensure that volunteers are allocated according to skill, aptitude and personality. We have had very positive feedback from In-Pensioners resident in the MTI and their families.

The medical centre is now registered with the Care Quality Commission. We continue to develop and deliver specialist services in line with best practice and with Primary Care Trust (now Clinical Commissioning Group) requirements. There is also now an active Patient Reference Group made up from Infirmary and Long Ward In-Pensioners who seek to engage with our medical centre staff and help us monitor the quality of services provided.

Finally, the Clinical Governance Oversight Committee (CGOC) has continued actively to review and monitor the quality of health and social care provided in the infirmary and medical centre, and its annual report to the Board provides an overview of achievements.

Business development

Much of the progress in this domain has already been highlighted under Corporate Objective 3. In addition, we have begun to explore in greater detail the potential commercial uses to which spare capacity could be put. As far as the Prime Minister Scholarship Scheme is concerned, we have yet to reach any conclusions but discussion with the Kuwaitis has progressed positively and we hope to have a resolution before long.

Reputation

During the year covered by this report we received a great deal of positive publicity, particularly around the Diamond Jubilee and the Olympics but also in relation to Gordon House. The principal initiative during the year, however, was to launch a Communications and Marketing Review with the aim of understanding perceptions of the Hospital among our many stakeholders, thereby enabling us to develop a narrative and supporting material which will help us better to present the case for support. The Review is well underway, and the outcomes will be presented to the Board in the autumn of 2013. Further work will then follow. Meanwhile we have taken every opportunity to raise our profile as a centre of excellence in the care of the elderly. Finally, we received extensive positive coverage associated with the funeral of Baroness Thatcher after whom the Margaret Thatcher Infirmary was named.

Financial review and results for the year

Grant in Aid

The Grant in Aid funds the majority of the care of the In-Pensioners, including food and utilities. The total funding received from the Ministry of Defence was £11,276,000 (2012: £11,001,000). Additionally other incoming resources such as staff accommodation recoveries and NHS pension cost recoveries totalled £426,996 (2012: £422,205) for the year. In the year total resources expended that met the criteria for Grant in Aid was £12,994,941 (£11,376,070) and additionally there was an actuarial loss of £13,000 (2012: £14,000) on defined benefit pension schemes. At the end of year there was a net deficit of £1,304,331 (2012: £1,051,751). This deficit is always funded from Army Prize Money and Legacy fund where it can be covered by income from the trading subsidiaries.

Army Prize Money and Legacy Fund

The Army Prize Money and Legacy Fund had total income of £4,780,209 (2012: £3,786,001). Other than income from the subsidiaries noted below, the further increase since last financial year arises due to an increase in investment property income (lease premium extensions) of £430,119. Additionally investments yielded income of £591,897 (2012: £433,569) for the year an increase of £158,328 on the prior year. Of the total voluntary income of £2,521,400 (2012: £2,069,961) for the year an amount of £489,408 (2012: £100,000) was restricted.

Total funds donated from Royal Hospital Chelsea Appeal amounted to £1,861,424 (2012: £1,635,574). In addition Gordon House (London) Limited gift aided £263,517 to the Royal Hospital Chelsea via the Army Prize Money and Legacy fund. Trading results of the subsidiaries are discussed below and further details are contained in note 10 to the accounts.

Revenue expenditure charged to the Army Prize Money and Legacy Fund was £8,730,908 (2012: £12,051,732) of which £6,719,631 (2012: £8,196,951) related to depreciation on fixed assets. The decrease in depreciation relates to the downward revaluation of land and buildings on 31 March 2012 which affected depreciation charges in the year under review.

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.

Trading subsidiaries

Royal Hospital Chelsea Appeal Ltd Group

At the end of the year Royal Hospital Chelsea Appeal Ltd Group held reserves of £1,932,973 (2012: £1,367,965) of which £256 (2012: £85,664) was restricted. The increase in reserves is largely due to the FY2012-13 gift aid amounts from: Chelsea Pensioner (RH) Ltd of £1,406,368 (2012: £1,161,414) and Tricorne Traders Ltd £155,292 (2012:£56,125). RHC Appeal reserves are maintained at a level to meet the charitable objectives of the organisation.

During the year the subsidiaries donated a total of £1,861,424 (2012: £1,635,574) to the Royal Hospital Chelsea of which £389,408 (2012: £1,200,000) was restricted. The total is predominantly made up of the FY2011-12 gift aid amounts from Chelsea Pensioner (RH) Ltd and Tricorne Traders Ltd of £1,161,414 and £56,125 respectively that are only donated through to the ultimate parent undertaking after the accounts have been audited. In addition Royal Hospital Chelsea Appeal itself raised £1,006,535 (2012: £1,790,743) during the year of which £254,477 unrestricted and £389,408 restricted income was donated to the Royal Hospital Chelsea during the year. The remaining £362,650 was retained with a view to donate more during FY2013-14.

Gordon House (London) Ltd

A new trading subsidiary, Gordon House (London) Ltd, was incorporated during the year in order assist the Commissioners of the Royal Hospital Chelsea with the sale of the lease of the property known as Gordon House. During the year the Company purchased 1 per cent of the leasehold from the Commissioners of the Royal Hospital Chelsea. This acquisition was then disposed when the leasehold contract transferred to the buyer. The Royal Hospital Chelsea retains the freehold of the property and this is recorded at market value under investment properties (see Tangible fixed assets section below). As the subsidiary had taxable income at the year-end it has gift aided this taxable income of £263,517 to its parent undertaking the Royal Hospital Chelsea.

Pension liability

Although the employees of the Royal Hospital Chelsea are members of the Principal Civil Service Pension Scheme, some former Governors, Lieutenant Governors and Captains of Invalids are members of an unfunded defined benefit scheme which is paid out of current income. The scheme has 14 retired members (or their widows), and has been closed to new entrants. The scheme is a final salary scheme with benefits based on number of years' service and final salary. Under FRS17 there is a pension liability of £414,000 (2012: £425,000) attributable to the Grant in Aid fund (see note 20).

Reserves policy

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

As at 31 March 2013 the total balance sheet reserves stood at £610,683,292 (2012: £568,290,236). This amount includes a Revaluation Reserve of £316,857,416 (2012: £316,857,416).

Also included in the above total are restricted funds of £38,340,110 (2012: £86,667) of which £38,291,235 relates to the Gordon House Restricted Fund (including the revaluation of Gordon House). These funds are restricted under a S106 agreement to use for heritage capital expenditure following the disposal of the Gordon House Leasehold. In the first instance they will be used to fund the balance of the Long Ward modernisation project, completion of which will take place in FY 2015/16. The balance of this restricted fund, which is available for other capital projects, is currently invested in a ring-fenced fund where it will remain until required.

Group net current assets at the year-end equated to £13,306,344 (2012: £1,784,194) of which £11,199,624 related to Gordon House proceeds and is therefore restricted. This leaves the Royal Hospital Chelsea with unrestricted net current assets of £2,106,720 (2012: £1,784,194) sufficient to cover approximately two months operating cash expenditure (2012: 1 month).

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

It should be noted that the Grant in Aid is provided on an annual basis to pay for the day to day running costs of the Royal Hospital Chelsea. In practice the Grant in Aid falls some way short to the total sum required for this purpose so there is never any surplus, and even if there were it could not be carried over to the following year. In addition, Grant in Aid cannot be used or set aside for capital projects. There is therefore no theoretical or actual scope to set up reserves from Grant in Aid funding.

Investment policy

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

The Commissioners, in delegating their investment management powers, require their investment manager to pay attention to the level of risk, the suitability of the class of investment and the need for diversification insofar as appropriate to the circumstances of the Charity.

Investment Objectives

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

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

Tangible fixed assets

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

At the end of the financial year the operational Land and Buildings have a net book value of £467,281,603 (2012:£475,221,829). There are assets under construction of £5,079,559 (2012: £3,301,610) which relate to the on-going major refurbishment of the Long Wards. The North-East Pavilion phase (£2,870,827) was completed during the year and has thus been reclassified to Land and Buildings as at 31 March 2013.

Investment property has a value of £58,900,000 (2012: £58,500,000). The net increase in value of £400,000 is the result of the revaluation of the Gordon House freehold which is retained by the Royal Hospital Chelsea.

In order to comply with FRS30 exhibits were revalued in June 2011. The current value of exhibits is £15,785,266 (2012: £15,782,515). These assets are due to be valued again in 2016-17.

Plant machinery and equipment has a net book value of £2,583,954 (2012: £2,627,902) and vehicles have a net book value of £112,617 (2012: £80,753). The increase in vehicles is predominantly due to the acquisition of two electric utility vehicles utilised by the porters.

Plans for future periods

Development plans

As outlined in the key objectives in the Lieutenant Governor's report, work will continue on the Long Ward modernisation programme in addition to other major projects already identified such as the South Ground roads/ drains project, the restoration/development of the buildings in the Prince of Wales's Yard and improvements to the grounds.

We shall continue to work with other related service charities on the development of the pilot schemes for respite and domiciliary care in the Margaret Thatcher Infirmary, and the establishment of a veterans hub. In addition we will, as always, continue to strive to maintain the exceptionally high quality of care provided to our In-Pensioners, ensuring that we remain fully compliant with regulatory requirements.

The trading subsidiaries will continue with their commercial activities whilst at the same time preserving the ethos of the Royal Hospital Chelsea. Fundraising activities will continue, with priority being given to developing a new approach to legacies. This, and much else, will be informed by the work of the Communications and Marketing Review.

Audit arrangements

The consolidated accounts of the Royal Hospital Chelsea are audited by the Comptroller and Auditor General in accordance with the Letters Patent dated 21 November 2003. An audit fee of £40,000 has been charged for the audit (2012: £33,000) and is included in the Governance costs. The increase in fee reflects the actual time taken to complete the audit. No non-audit work was carried out by the auditor in 2012-13.

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

Major General APN Currie
Lieutenant Governor and Accounting Officer
On behalf of the Board of Commissioners

24 October 2013

Governance Statement

Governance Framework

Statutory Governing Documents

The statutory authority for the Royal Hospital Chelsea is founded on Letters Patent from the Crown, which vest responsibility for its management in a Board of Commissioners. The current Letters Patent were issued on 21 November 2003. The Paymaster General is formally the Treasurer of the funds and Chairman of the Board of Commissioners who administer them, although in practice the Governor invariably takes the chair. The Royal Hospital Chelsea is not registered with the Charity Commission, but is recognised as having Charitable Status by HMRC.

Grant in Aid Framework Document

The Royal Hospital Chelsea is an arms-length body in relation to the Ministry of Defence and it receives Grant in Aid funding which is governed by a Financial Framework arrangement (signed in August 2010) which outlines any restrictions on the use of the Grant in Aid funding and any reporting requirements. This Framework includes the appointment of an Accounting Officer who is personally responsible in accordance with a letter of delegation from the Permanent Undersecretary of the Ministry of Defence for the reporting to Parliament of the proper and efficient use of the Grant in Aid funds. The Accounting Officer, with the Board of Commissioners, has responsibility for maintaining a sound system of internal controls that supports the achievement of aims and objectives set by the Board.

At the end of the financial year the Lieutenant Governor took over the responsibilities of Accounting Officer and received his own letter of delegation from the Permanent Undersecretary of the Ministry of Defence. This has provided for the better alignment of responsibility and accountability.

Charity Accounting and reporting responsibilities

The Royal Hospital Chelsea materially complies with the guidelines laid down in the Charities SORP 2005. To this end the Commissioners and the Accounting Officer are required to make a proper presentation of accounts for each financial year. The accounts are required to give a true and fair view of the state of affairs of the Charity at the year end, and of its incoming resources and application of resources for the financial year.

In preparing the accounts the Charity is required to:

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

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

Register of Interests

A register of Commissioners relevant interests is maintained and updated at least annually. All Commissioners are required to declare if they have an interest, pecuniary or otherwise, in any matter being considered by the Board and any relevant conflicts of interest are duly recorded as they arise. During the year under review the only interest declared was by Mr A Titchmarsh in relation to discussions surrounding the renewal of the Chelsea Flower Show contract with Royal Horticultural Society.

Organisational Structure, governance and decision-making

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

Responsibility for day to day operations and the development of policy for the approval of the Board of Commissioners lies with the Management Board.

Board of Commissioners structure

The Board of Commissioners comprises a mix of ex-officio and Specially Appointed Commissioners. The former include the Governor (de facto Chairman), the Lieutenant Governor (also Chief Executive Officer and Accounting Officer), the Assistant Chief of the General Staff (to represent the Army), the Director General of Army Medical Services, and the Director General Resources Land Forces Command who acts as the conduit through which the Grant in Aid is paid to the Royal Hospital Chelsea and provides a degree of expert oversight. There are also three Ministers who for historic reasons are ex-officio Commissioners. While these Ministers do not play an active part in the governance or strategic management of the organisation, they have all visited for briefing, are made aware of major issues and receive copies of appropriate correspondence, including Board minutes.

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

Board of Commissioners governance

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

The Board of Commissioners met four times during the year. The Governor and Lieutenant Governor are always present and there is invariably a substantial majority of the remainder (excluding Ministers, who do not attend). At each meeting the Board considers a comprehensive report from the Lieutenant Governor covering all aspects of the Royal Hospital Chelsea's business, both reporting on what has transpired since the previous meeting and flagging up future plans and emerging issues. The Board is then able to give guidance and direction on these matters. Individual members of the Board also regularly and frequently engage outside committee with the executive on matters within their particular areas of competence. The Board also receives minutes and other reports from its subordinate committees, and periodically holds an away day to consider strategic issues.

Subordinate Committees

Subordinate to the Board there are six committees to which the lead is delegated for the more detailed scrutiny of particular activities. Each of these committees has a Terms of Reference which are reviewed regularly, a chairman and a majority of members who are themselves Commissioners. Additional members may be co-opted as required for their expertise. In addition, the Governor, as Chairman of the Board, has the right to attend any subordinate committee with the agreement of its chairman. The six committees are as follows:

Audit Committee

The Audit Committee is made up of the following Commissioners:

M Waterson Esq CBE (Chair)
Major General APN Currie CB (Lieutenant Governor)
David Stephens Esq (Director General Resources Land Forces Command)
D Rosier Esq
S Corbyn Esq

The Audit Committee met four times during the course of the financial year and considered in addition to the Royal Hospital Chelsea accounts matters such as the High Level Risk Register and the restructuring of the Finance Department. During the financial year under review there was exceptional turbulence within the Finance team (and related changes in the Commercial Department) which created a degree of instability and a severe loss of corporate knowledge. This at a time when there was an identified need to improve the skill base of the finance staff and improve accounting processes to take account of the increasing complexity of the business. The Lieutenant Governor's response to this has been to restructure the department, recruit staff with a higher level of skills and begin a comprehensive review of its internal financial processes led by the new Finance Director. The Audit Committee was kept abreast of these developments.

Nominations Committee

The Nominations Committee is made up of the following Commissioners:

The Deputy Chairman (during the year under review this was Sir Michael Jenkins who has been replaced as Deputy Chairman by M Waterson Esq CBE)

Professor Dame Janet Husband DBE FMedSci FRCP FRCR (Chair)
David Stephens Esq (Director General Resources Land Forces Command)
D McDonough Esq OBE

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

In the year under review and to the date of signing this report, five new Specially Appointed Commissioners were appointed whilst four Commissioners completed their second term. In addition, we were deeply saddened at the passing of Sir Michael Jenkins whose contribution to the Royal Hospital Chelsea was greatly valued.

The Secretary to the Board ensures that each Commissioner completes a programme of induction on appointment and is thereafter provided with all relevant information and support.

Remuneration Committee

The Remuneration Committee is made up of the following Commissioners:

The Deputy Chairman (during the year under review this was Sir Michael Jenkins who has been replaced by as Deputy Chairman by M Waterson Esq CBE)

David Stephens Esq (Director General Resources Land Forces Command)
J Fenwick Esq QC

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

Investment Committee

The Investment Committee is made up of the following Commissioners:

D Rosier Esq (Chair)
Major General APN Currie CB (Lieutenant Governor)
Sir Thomas Hughes-Hallett
Professor Lord Kakkar

The Investment Committee met twice during the year under review. In that time they conducted a review of the Royal Hospital Chelsea's Investment Management arrangements and appointed Sarasin & Partners LLP to replace Newton Investment Management with effect from October 2012. The Investment Committee reports back to the Board on performance and, where appropriate, seek the advice of the Board on policy issues.

Clinical Governance Committee

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

Professor Dame Janet Husband DBE FMedSci FRCP FRCR (Chair)
Major General APN Currie CB (Lieutenant Governor)
Major General Carmichael MBE QHDS (Director General of Army Medical Services)
Sir Thomas Hughes-Hallett
Professor Lord Kakkar

The Committee met three times during the year under review. It considers all aspects of clinical performance and risk, and takes the lead in overseeing, on behalf of the Board, the implementation of clinical policy. In the year under review the principal new initiative and achievement was the transformation of Campbell Ward (28 beds) into a tailor made facility for those with dementia. The £296,000 required to do this was raised by public donation and the ward was opened by the Secretary of State for Health in June 2013.

Estates Committee

The Estates Committee is made up of the following Commissioners:

S Corbyn Esq (Chair)
Major General APN Currie CB (Lieutenant Governor)
D McDonough Esq OBE
M Waterson Esq CBE
A Titchmarsh Esq MBE VMH DL

The Committee met three times during the year under review and provides advice to the Board and guidance to the executive on all major matters relating to the development and condition of the estate. During the year under review it gave its endorsement in principle to a coherent strategic plan for the longer term development of the estate including the grounds, subject to further approvals from the Board at each key stage.

Management Board

Responsibility for day to day operations and the development of policy for the approval of the Board of Commissioners lies with the Management Board which is chaired by the Lieutenant Governor in his capacity as Chief Executive Officer, and is attended by all heads of department. The Management Board comprises of:

Lieutenant Governor – Major General APN Currie CB (Chair/CEO/Accounting Officer)

Quartermaster (Director of Facilities) – Lieutenant Colonel A Hickling

Matron (Director Care Services) – Colonel L Bale

Adjutant (Director Welfare) – Colonel S Bate

Finance Director – Ms J Kucharska

Commercial Director – J Blake Esq

Also in attendance are:

Secretary – PWD Hatt Esq

Physician and Surgeon – Dr F Keating

Chaplain – The Rev R Whittington

The Management Board meets formally on a monthly basis and includes in its meetings a review of current operations, management planning, budgetary position, key HR matters, policy development and the high level risk register. It is the practice for all members of the Management Board also to attend the principal part of meetings of the Board of Commissioners, although they are not in attendance for the private session during which matters relevant only to the Commissioners are considered. This greatly facilitates understanding between those responsible for providing strategic direction and those charged with its implementation.

Subsidiary companies

In addition to the six subordinate committees of the Board there are four active subsidiary companies which have been established to manage charitable and trading activities. These subsidiaries are incorporated under the Companies Act 2006 and report accounts in accordance with the Companies Act and UK GAAP. The companies are as follows:

Royal Hospital Chelsea Appeal Ltd Group

The Commissioners form a majority of directors on the Board of Royal Hospital Chelsea Appeal Ltd ('Appeal') which is a wholly owned subsidiary the Royal Hospital Chelsea.

This company has three wholly owned trading subsidiaries being Chelsea Pensioner (RH) Ltd, Tricorne Traders Ltd and RHC Prime Minister Scholars Ltd (the latter is currently a dormant company). Chelsea Pensioner (RH) Ltd is the trading arm responsible for the management of the Souvenir Shop, income from events, marketing and communications. Tricorne Traders Ltd runs the Chelsea Pensioner Club, MTI Café and also provides the catering and staff for functions.

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

Gordon House (London) Ltd

Gordon House (London) Ltd was incorporated during the year in order assist the Commissioners of the Royal Hospital Chelsea with the sale of the lease of the property known as Gordon House. The Company is a wholly owned subsidiary of the Royal Hospital Chelsea and the Commissioners form a majority of the directors on the Board. This subsidiary also gift aids its taxable income to its parent undertaking the Royal Hospital Chelsea (through the Army Prize Money and Legacy Fund).

Review of effectiveness of internal control

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

Management Board and department budget holders are always informed of changes to any financial or regulatory control and reporting requirements, and towards the end of the year under review a number of new financial controls and procedures were implemented to produce a more effective and robust system of financial control. During the forthcoming year the financial regulations and controls manuals will be reviewed in more detail with the view to develop and implement further robust controls.

External audits

The consolidated accounts of the Royal Hospital Chelsea are audited by the Comptroller and Auditor General in accordance with the Chelsea Hospital Act 1876.

In addition to this the commercial trading subsidiary companies are separately audited by PKF Littlejohn LLP.

Internal audits

In addition to the two external auditors, the Royal Hospital Chelsea Group is also subject to regular internal audits to standards defined in the Government Internal Audit Manual which includes the Internal Auditors' independent opinion on the adequacy and effectiveness of the Royal Hospital Chelsea's system of internal control together with recommendations for improvement. The current internal auditors are Crowe, Clarke & Whitehill. In addition the Royal Hospital Chelsea is from time to time audited by the Defence Internal Audit (DIA) on the use of the Grant in Aid funds. The most recent DIA report was received in October 2012.

Fraud prevention and detection

The Royal Hospital Chelsea has in place a set of values and a code of conduct to which all members of staff are required to adhere. In addition, because they are working with vulnerable adults all members of the staff are subject to criminal record checks prior to appointment. Similarly, permanent contractors on site are required to adhere to the same procedures. Offences, should they occur, are reported to the Charities Commission and the Ministry of Defence. In addition there is a requirement to report any loss to public funds to the Ministry of Defence.

Risk control framework

Risk appetite

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

Key risks and controls

Risk is regarded as a key management tool at the Royal Hospital Chelsea and there is in place a well-established and mature system for its management. At its apex there is a high level risk register, which is 'owned' personally by the Chief Executive, with responsibility for the management of each risk delegated to the most appropriate member of the Management Board. This risk register, which includes such matters as financial, clinical, health and safety, and reputational risks, is updated by individual risk 'owners' and considered formally by the Management Board as a whole at every monthly meeting, at which time consideration is also given to emerging risks. Both the initial impact and initial probability of each of the risks are separately defined, as are the control mechanisms required to mitigate them. The risk register is then presented to the Audit Committee for its consideration.

Currently the key areas of risk are considered to be:

a Financial

The Royal Hospital Chelsea remains heavily dependent on its Grant in Aid for meeting day to day running costs. The financial risk is mitigated both by maintaining strong, effective links to the Ministry of Defence and by increasing income from commercial activities. A priority is now being given to developing charitable income from legacies, and the sale of a long lease for Gordon House has established a restricted fund for future capital expenditure which cannot be covered by the Grant in Aid.

b Reputational

This is managed by having clear policies in place for handling the media, by employing a Public Relations consultancy firm to provide advice and manage an active Public Relations programme, and by training key staff.

c Fire

The risk of fire is heightened during the Long Ward modernisation programme which involves 'hot' work in the heritage buildings. This is mitigated in particular by protocols to ensure the contractors do not carry out hot work outside specified periods, and by the comprehensive fire awareness and training programme provided to all staff.

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

Risk is further mitigated by the comprehensive internal and external audit programme which explores not just the regularity and efficiency of the Royal Hospital Chelsea's financial management but also its business processes.

Factors outside the control of the Royal Hospital Chelsea

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

- A change in National attitudes towards the military which might undermine public (and thus political) support for the institution (and so impact the Grant in Aid).
- The Ministry of Defence reducing the grant in aid in real terms as a budgetary measure. Although unlikely at present this does remain a possibility in the longer term and is the principal reason why the Commissioners are intent on moving progressively towards establishing greater financial self-sufficiency.
- Competition from other military charities. The Armed Forces charitable field is very heavily populated and competition for funds is likely to get greater. This has the potential to impact on fundraising.
- The declining military/veteran community which has the potential in the long term to impact on recruitment.
- The introduction of future legislation which might increase the cost base, for example by creating more demanding care regulations requiring additional staff or by raising pension contributions/National Insurance Contributions.
- A severe and prolonged economic downturn which would compound the first three factors listed above.

Some of the above factors can be partially mitigated, for example through a successful and targeted Public Relations campaign or by extending eligibility to new categories such as Royal Navy and Royal Air Force veterans, but overall they remain outside of the control of the Royal Hospital Chelsea and its Board.

Review of effectiveness of the Board

The Commissioners and Accounting Officer have responsibility for maintaining the effectiveness of the Royal Hospital Chelsea's governance. The Board of Commissioners intends, in accordance with its governance overview document, to have a specific review of its own work and performance every three years. This will be based on, *inter alia*:

- The degree to which the Royal Hospital Chelsea has achieved its objectives
- Periodic reports from the Chairman of the Audit Committee to the Board covering internal controls.
- Internal Audit reviews of internal control and risk management.
- 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.
- Perception of the Royal Hospital Chelsea among its key stakeholders.

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

Following the requirements of the Corporate Governance code, the Board has achieved strategic clarity in its work, is focused on results and has been provided with sound management information which has allowed it to act in a well-founded commercial way in respect of its various business opportunities over the financial year. In particular, the Board has been provided with a substantial amount of financial information on its capital programmes and has been able to rely on the data provided to it which has been governed by the Financial Framework between the Royal Hospital Chelsea and the Ministry of Defence in respect of Grant in Aid as well as the production of information from the subsidiary companies in accordance with commercial standards.

The timing of the submission of the accounts to Parliament has been delayed until after the Summer recess as a realism measure owing to resource constraints and programming issues.

Major General APN Currie
Lieutenant Governor and Accounting Officer
On behalf of the Board of Commissioners

24 October 2013

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

I certify that I have audited the financial statements of the Royal Hospital Chelsea for the year ended 31 March 2013 under the Chelsea Hospital Act 1876. The financial statements comprise: the Group and Parent Statements of Financial Activities, the Group and Parent Balance Sheets, the Group Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

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

The Commissioners and the 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 and the group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Royal Hospital Chelsea; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

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

Opinion on regularity

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

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the group's and of the Royal Hospital Chelsea's affairs as at 31 March 2013 and of its incoming resources and application of resources for the year then ended; and
- the financial statements have been properly prepared in accordance with the Chelsea Hospital Act 1876 and the accounting policies set out within them.

Opinion on other matters

In my opinion:

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

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General

31 October 2013

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

Consolidated Statement of Financial Activities for the year ended 31 March 2013

	Notes	Unrestricted 2013 £	Restricted 2013 £	Group 2013 £	Restated Group 2012 £
Incoming resources					
Incoming resources from generated funds					
Voluntary income	2	998,994	404,000	1,402,994	2,225,130
Activities for generating funds	3/10	2,718,149	–	2,718,149	2,482,354
Investment income	4	2,262,260	–	2,262,260	1,648,170
Incoming resources from charitable activities					
Grant in Aid from the Ministry of Defence	5	11,276,000	–	11,276,000	11,001,000
Other incoming resources					
	6	436,426	–	436,426	476,959
Total incoming resources		17,691,829	404,000	18,095,829	17,833,613
Resources expended					
Costs of generating funds					
Costs of generating voluntary income	7	2,092,622	–	2,092,622	1,555,905
Fundraising trading	7	780,959	–	780,959	1,210,207
Investment management costs	7	6,254	–	6,254	61,767
Charitable activities					
Infirmity nursing and medical	7	6,316,062	268,959	6,585,021	6,306,231
Welfare and ceremonial	7	7,243,538	79,425	7,322,963	7,461,385
Estate management	7	6,075,250	8,000	6,083,250	8,074,370
Governance costs					
	7/9	179,150	–	179,150	115,959
Total resources expended		22,693,835	356,384	23,050,219	24,785,823
Net incoming/(outgoing) resources before gross transfers		(5,002,006)	47,616	(4,954,390)	(6,952,210)
Transfers					
Gross transfers between funds	27	6,303,586	(6,303,586)	–	–
Net incoming/(outgoing) resources before other recognised gains and losses		1,301,580	(6,255,970)	(4,954,390)	(6,952,210)
Other recognised gains/(losses)					
Gains/(losses) on revaluation of fixed assets	12	400,000	36,203,313	36,603,313	(27,820,153)
Realised gains on investment assets	13	255,000	–	255,000	678,008
Unrealised gains/(losses) on investment assets	13	2,120,958	–	2,120,958	(858,551)
Gains/(losses) on disposal of fixed assets	11	75,075	8,306,100	8,381,175	(5,701)
Actuarial (losses) on defined benefit pension schemes	22	(13,000)	–	(13,000)	(14,000)
Net movement in funds		4,139,613	38,253,443	42,393,056	(34,972,607)
Reconciliation of funds					
Total funds brought forward	27	568,203,569	86,667	568,290,236	603,262,843
Total funds carried forward		572,343,182	38,340,110	610,683,292	568,290,236

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

Statement of Financial Activities – Charity for the year ended 31 March 2013

	Notes	Unrestricted 2013 £	Restricted 2013 £	Charity 2013 £	Restated Charity 2012 £
Incoming resources					
Incoming resources from generated funds					
Voluntary income	2	2,031,992	489,408	2,521,400	2,069,961
Activities for generating funds	3	–	–	–	26,035
Investment income	4	2,249,993	–	2,249,993	1,635,865
Incoming resources from charitable activities					
Grant in Aid from the Ministry of Defence	5	11,276,000	–	11,276,000	11,001,000
Other incoming resources					
	6	436,426	–	436,426	476,959
Total incoming resources		15,994,411	489,408	16,483,819	15,209,820
Resources expended					
Costs of generating funds					
Costs of generating voluntary income	7	1,603,716	–	1,603,716	1,403,301
Fundraising trading	7	–	–	–	26,034
Investment management costs	7	6,254	–	6,254	61,767
Charitable activities					
Infirmity nursing and medical	7	6,316,062	268,959	6,585,021	6,306,231
Welfare and ceremonial	7	7,243,538	79,425	7,322,963	7,461,385
Estate management	7	6,075,250	8,000	6,083,250	8,074,370
Governance costs					
	7/9	124,645	–	124,645	94,714
Total resources expended		21,369,465	356,384	21,725,849	23,427,802
Net incoming/(outgoing) resources before gross transfers		(5,375,054)	133,024	(5,242,030)	(8,217,982)
Transfers					
Gross transfers between funds	27	6,303,586	(6,303,586)	–	–
Net incoming/(outgoing) resources before other recognised gains and losses		928,532	(6,170,562)	(5,242,030)	(8,217,982)
Other recognised gains/(losses)					
Gains/(losses) on revaluation of fixed assets	12	400,000	36,203,313	36,603,313	(27,820,153)
Realised gains on investment assets	13	255,000	–	255,000	678,008
Unrealised gains/(losses) on investment assets	13	2,112,604	–	2,112,604	(858,551)
Gains/(losses) on disposal of fixed assets	11	(8,825)	8,306,100	8,297,275	(5,701)
Actuarial (losses) on defined benefit pension schemes	22	(13,000)	–	(13,000)	(14,000)
Net movement in funds		3,674,311	38,338,851	42,013,162	(36,238,379)
Reconciliation of funds					
Total funds brought forward	27	566,921,268	1,003	566,922,271	603,160,650
Total funds carried forward		570,595,579	38,339,854	608,935,433	566,922,271

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

Balance Sheet as at 31 March 2013

	Notes	Group 2013 £	Restated Group 2012 £	Charity 2013 £	Restated Charity 2012 £
Non-current assets					
Tangible assets					
Heritage	11	16,025,266	16,022,515	16,025,266	16,022,515
Non heritage	11	474,817,732	480,992,094	474,743,154	480,904,088
Investment property	12	58,900,000	58,500,000	58,900,000	58,500,000
Investments	13	26,745,911	11,522,551	26,974,988	11,522,551
Long-term debtors	14	21,500,000	–	21,285,000	–
		597,988,909	567,037,160	597,928,408	566,949,154
Current assets					
Stock	15	156,419	154,766	–	–
Debtors	16	7,732,537	329,800	7,818,372	221,083
Cash at bank and in hand	17	7,837,449	3,661,784	5,407,915	1,838,127
		15,726,405	4,146,350	13,226,287	2,059,210
Liabilities					
Creditors: amounts falling due within one year	18	(2,420,061)	(2,362,156)	(1,607,301)	(1,554,975)
		13,306,344	1,784,194	11,618,986	504,235
Net current assets					
		611,295,253	568,821,354	609,547,394	567,453,389
Total assets less current liabilities					
Creditors: amounts falling due after one year	19	(197,961)	(106,118)	(197,961)	(106,118)
Net assets excluding pension liability		611,097,292	568,715,236	609,349,433	567,347,271
Defined pension scheme liability	20/23	(414,000)	(425,000)	(414,000)	(425,000)
Net assets including pension liability		610,683,292	568,290,236	608,935,433	566,922,271
Funds					
Grant in Aid Fund (unrestricted)	27	(1,672,055)	(367,724)	(1,672,055)	(367,724)
Army Prize Money & Legacy Fund					
Restricted Funds	27	38,339,854	1,003	38,339,854	1,003
Unrestricted Funds	27	255,410,218	250,431,576	255,410,218	250,431,576
Revaluation Reserve	27	316,857,416	316,857,416	316,857,416	316,857,416
Gordon House (London) Limited (unrestricted)	27	(185,114)	–	–	–
Royal Hospital Chelsea Appeal Ltd					
Restricted	27	256	85,664	–	–
Unrestricted	27	1,932,717	1,282,301	–	–
Total funds		610,683,292	568,290,236	608,935,433	566,922,271

Major General APN Currie
Lieutenant Governor and
Accounting Officer
On behalf of the Board of
Commissioners
24 October 2013

General Sir Redmond Watt KCB
KCVO CBE DL
Governor
On behalf of the Board of
Commissioners
24 October 2013

M Waterson Esq CBE
Chairman of the Audit Committee
On behalf of the Board of
Commissioners
24 October 2013

Consolidated Cash Flow Statement for the year ended 31 March 2013

Group
2013
£

Net cash (outflow) from operating activities (Note i)	(6,129,130)
Returns on investments and servicing of finance (Note ii)	663,020
Capital expenditure and capital investment (Note iii)	22,489,174
Management of liquid resources (Note iv)	<u>(12,847,399)</u>
Increase in cash	4,175,665
Cash at the beginning of the year	3,661,784
Cash at the end of the year	<u>7,837,449</u>

Note i

Reconciliation of operating profit to operating cash flows

Net (outgoing) resources before transfers	(4,954,390)
Depreciation charges	6,766,925
Interest received	(71,606)
Interest paid	483
Dividends received	(591,897)
(Increase)/decrease in stock	(1,653)
(Increase)/decrease in debtors	(9,559,994)
Increase/(decrease) in creditors	2,276,928
Movement on defined pension scheme liability	(24,000)
Adjustment to prior period	30,074
	<u>(6,129,130)</u>

Note ii

Returns on investments and servicing of finance

Interest received	71,606
Interest paid	(483)
Dividends received	591,897
	<u>663,020</u>

Note iii

Capital expenditure and capital investment

Purchase of tangible assets	(4,900,826)
Proceeds from sale of tangible fixed assets	48,890,000
Long term debtor (GH)	(21,500,000)
	<u>22,489,174</u>

Note iv

Management of liquid resources

Purchase of investments	(35,173,766)
Proceeds from sale of investments	22,326,367
	<u>(12,847,399)</u>

Notes to the Financial Statements

1 Accounting Policies

a Basis of accounting

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

The Financial Statements consolidate on a line by line basis all the Restricted and Unrestricted Funds of the Royal Hospital Chelsea and its related companies being Royal Hospital Chelsea Appeal Ltd (registered charity, number 1076414), Chelsea Pensioner (RH) Ltd, Tricorne Traders Ltd and Gordon House (London) Ltd.

b Incoming resources

Income is accounted for when receivable except for income from securities and donations which are accounted for when received or when the value can be reasonably ascertained whichever is earlier.

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

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

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

Lease extension premiums are recognised when the payment is received from the solicitor.

c Resources expended

Resources expended are accounted for on the accruals basis.

During 2012-13 a review of the methodology of allocating expenditure was undertaken and was subsequently simplified. This resulted in the restatement of 2011-12 expenditure in order to comply with the Charities SORP and in order to make the prior year's figures comparable to the current year.

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

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

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

d Tangible fixed assets

- i* **Freehold property:** is stated at valuation on a depreciated replacement cost basis (operational buildings) or market value (investment buildings). Valuations by independent professionally qualified valuers are obtained at five yearly intervals unless there is evidence of material change in the interim. The most recent revaluation took place as at 31 March 2012 and the next full revaluation is planned for March 2017. New builds are capitalised at historic cost. Major refurbishments completed during the year which were initially carried under 'Assets in the Course of Construction' are capitalised at the year-end and depreciated from the start of the new financial year.
- ii* **Other tangible fixed assets:** are capitalised at their estimated depreciated replacement cost or at historic cost on acquisition. Since 2004 all new capital expenditure has been funded from the Army Prize Money and Legacy Fund. Improvements and additions in periods between valuations are capitalised at historic cost. Depreciation is provided at rates calculated to write off the value of each asset over its expected useful life with the exception of freehold land, assets in course of construction and exhibits which are not depreciated. Depreciation rates are as follows:

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

Fixtures and fittings	5 – 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 – 5 years straight line

- iii* **Heritage assets:** since 2001 new heritage assets are capitalised at cost upon acquisition. Heritage assets are capitalised as non-depreciating assets under the terms of FRS30, which prevents operational assets being treated as heritage assets. In June 2011 a revaluation was undertaken of all existing heritage assets identified such as RHC paintings and artefacts and these are included as heritage assets in note 11.
- iv* **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 full revaluation took place as at 31 March 2012 and the next full revaluation is planned for March 2017. No depreciation is charged on investment properties.
- v* **Capitalisation thresholds:** the lower limit for capitalisation of land and buildings is £10,000. This threshold also applies to land and buildings which are heritage assets. For all other fixed assets it is £5,000.
- vi* **Impairment of assets:** under FRS11 tangible assets need to be reviewed for impairment only if there is some indication that impairment has occurred. In considering any potential impairment of tangible assets, particularly land and buildings, we carry out a high level assessment of the estate to identify if any key events or changes in circumstances give any indication of potential impairment. If there is no indication of impairment then no formal review is conducted. Correspondingly if there is any indication of impairment then a formal review is conducted and any impairment losses are written off to the SOFA.

e 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.

f Pensions

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

g Taxation

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

Irrecoverable VAT is included in the SOFA with the item to which it relates. Chelsea Pensioners (RH) Ltd and Tricorne Traders are registered for VAT.

h Operating leases

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

i Stock

Stock is held by Chelsea Pensioner (RH) Ltd and Tricorne Traders Ltd and is valued at the lower of cost and net realisable value.

2 Voluntary income

	Group 2013 £	Group 2012 £	Charity 2013 £	Charity 2012 £
Legacies	48,669	181,139	48,669	181,139
Donations	1,354,325	2,043,991	2,472,731	1,888,822
	<u>1,402,994</u>	<u>2,225,130</u>	<u>2,521,400</u>	<u>2,069,961</u>

3 Activities for generating funds

	Group 2013 £	Group 2012 £	Charity 2013 £	Charity 2012 £
Prince of Wales	–	26,035	–	26,035
RHC Appeal Limited Group	2,718,149	2,456,319	–	–
	<u>2,718,149</u>	<u>2,482,354</u>	<u>–</u>	<u>26,035</u>

The Prince of Wales Hall which was used as a welfare facility ceased trading in September 2011 due to the opening of the café run by Tricorne Traders Ltd. The Prince of Wales Hall is now predominantly used for commercial events. Please see note 10 for the results of the subsidiary companies.

4 Investment income

	Group 2013 £	Group 2012 £	Charity 2013 £	Charity 2012 £
Investment Income	592,086	433,569	591,897	433,569
Rental income from property	1,598,757	1,168,638	1,598,757	1,168,638
Bank and investment interest received	71,417	45,963	59,339	33,658
	<u>2,262,260</u>	<u>1,648,170</u>	<u>2,249,993</u>	<u>1,635,865</u>

The Royal Hospital Chelsea owns the freehold of its investment properties and has granted head leases to various head tenants. The head tenants have in turn granted under-leases to sub tenants. Under the Leasehold Reform Housing and Urban Development Act 1993, tenants were given the right to extend their leases by ninety years. The Act specifies that a premium is payable for the granting of such extensions and gives details of how this is to be calculated. The amount of £1,598,757 (2012: £1,168,638) shown as income from investment properties includes £1,364,398 (2012: £879,083) paid to the Royal Hospital Chelsea in respect of lease extension premiums.

5 Income from charitable activities

	Group 2013 £	Group 2012 £	Charity 2013 £	Charity 2012 £
Grant in Aid from the Ministry of Defence	<u>11,276,000</u>	<u>11,001,000</u>	<u>11,276,000</u>	<u>11,001,000</u>

The use of the Grant in Aid funds received from the Ministry of Defence is governed by the Financial Framework which was signed in August 2010. Grant in Aid may only be spent on revenue expenditure insofar as this does not include commercial trading expenditure which is borne by the trading subsidiaries directly.

6 Other incoming resources

	Group 2013 £	Group 2012 £	Charity 2013 £	Charity 2012 £
Staff accommodation charges	201,170	201,983	201,170	201,983
Family practice	76,107	43,339	76,107	43,339
Food recoveries	21,532	20,440	21,532	20,440
Events recoveries	–	9,090	–	9,090
Pension contributions (NHS)	115,006	115,006	115,006	115,006
Other income	22,611	87,101	22,611	87,101
	<u>436,426</u>	<u>476,959</u>	<u>436,426</u>	<u>476,959</u>

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

7 Total resources expended

	Charitable activities					Total expenditure	
						Restated	
	Cost of generating funds	Infirmity nursing and medical care	Welfare and ceremonial	Estate management	Governance costs	Support costs	2013 Total
£	£	£	£	£	£	£	2012 Total
Costs of generating voluntary income	35,132	-	-	-	-	-	52,741
Fundraising trading	780,959	-	-	-	-	-	837,520
Investment management costs*	6,254	-	-	-	-	-	61,767
Staff costs (Note 8)	499,445	3,394,654	1,745,483	1,171,399	-	963,026	7,524,436
Other staff costs	-	22,200	6,321	16,190	-	124,911	183,013
Buildings and grounds maintenance costs	-	29,471	622	2,757,095	-	269,882	3,507,131
Information technology costs	-	-	-	-	-	119,690	94,093
In-pensioner living expenses	-	144,171	1,048,264	58,056	-	23	1,506,746
Catering costs	-	-	57,454	-	-	-	89,301
Council tax and rates	-	-	-	-	-	84,511	98,867
Security costs	-	-	-	-	-	750,427	736,284
Water, gas and electricity	-	-	-	-	-	516,531	555,697
Publicity and public relations	-	-	2,039	-	-	79,880	31,714
Insurance	-	-	-	-	-	242,361	286,079
Audit fees	-	-	-	-	120,311	-	91,645
Surveyor fees	11,685	-	-	-	-	-	63,779
Accountancy fees	-	-	-	-	-	-	3,360
Consultancy fees	844,758	10,266	-	54,424	7,775	70,193	470,336
Legal fees	-	-	497	-	37,675	-	10,588
Office expenses	-	-	-	-	727	194,758	222,039
Other expenses	-	206	12,906	554	-	3,538	89,068
Depreciation	473,681	1,619,001	3,094,895	701,418	-	864,500	8,269,619
Total before re-allocation of support costs	2,651,914	5,219,969	5,968,481	4,759,136	166,488	4,284,231	24,785,823
Re-allocation of support costs	227,921	1,365,052	1,354,482	1,324,114	12,662	(4,284,231)	-
Total expenditure	2,879,835	6,585,021	7,322,963	6,083,250	179,150	-	24,785,823

Investment management costs are deducted at source by the fund administrators at a rate of 0.75 per cent of investment value. However, RHC has a tiered management fee rate and therefore receives quarterly rebates from Sarasin, which have been credited to the management fee costs.

8 Staff costs and numbers

Staff costs by cost type	Group 2013 £	Restated	Charity 2013 £	Restated
		Group		Charity
		2012 £		2012 £
Salaries and wages	5,913,590	5,738,734	5,509,587	5,353,680
Social security costs	423,162	410,905	407,702	391,643
Pension costs	887,851	866,554	853,540	824,355
Sub-total	7,224,603	7,016,193	6,770,829	6,569,678
Agency and seconded staff	461,354	415,230	461,354	415,230
In-pensioner pay	88,050	93,013	88,050	93,013
Total	7,774,007	7,524,436	7,320,233	7,077,921

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

	2013	Restated 2012
Care services	81	81
Welfare and ceremonial	11	11
Facilities management	114	114
Management and administration	11	12
Development directorate	7	8
	224	226

Higher paid employees

The number of employees whose remuneration was over £60,000 in 2012-13 (excluding pension contributions) was as follows:

Band	2013	Restated 2012
£60,000 – £69,999	2	3
£70,000 – £79,999	1	1
£80,000 – £89,999	1	1

Three (2012: five) of the above staff contribute to the PCSPS defined benefits scheme. Employer pension contributions for the above staff were £53,851 (2012: £79,956).

The salary and pension entitlements for the Governor and the Lieutenant Governor 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	£000
General Sir Redmond Watt – Governor	60–65	60–65	–	–	–	–	–
Major General APN Currie – Lieutenant Governor and Chief Executive	75–80	75–80	0–2.5	5–10	147	171	21

Commissioners' emoluments

None of the Commissioners receive any remuneration for acting as Commissioners. Travel expenses of £726 (2012: £1,208) were claimed during the year by three Commissioners. The Governor and Lieutenant Governor are Commissioners and receive salaries in return for their work as executives of the Royal Hospital Chelsea. Former Governors and Lieutenant Governors receive pensions from an unfunded defined benefit scheme: these costs are included in note 22 – Unfunded Scheme. This scheme is closed to new members.

9 Governance costs

	Group	Restated Group	Charity	Restated Charity
	2013	2012	2013	2012
	£	£	£	£
Audit fees*	120,311	91,645	88,140	73,485
Consultancy fees	7,775	–	–	–
Legal fees	37,675	10,173	23,843	7,932
Bank charges	727	843	–	–
Support costs allocated to governance (Note 7)	12,662	13,298	12,662	13,298
	<u>179,150</u>	<u>115,959</u>	<u>124,645</u>	<u>94,715</u>

*£40,000 (2012: £33,000) relates to NAO audit fee charge for the year ended 31 March 2013.

10 Results of subsidiary companies:

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

i Royal Hospital Chelsea Appeal Ltd

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

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

ii Chelsea Pensioner (RH) Ltd

The company is limited by shares and is incorporated in England and Wales. Its share capital is wholly owned by Royal Hospital Chelsea Appeal Ltd. It was formed in order to conduct non-charitable trading and commercial fundraising activities, including the Chelsea Flower Show. The company's profits are transferred under gift aid rules to Royal Hospital Chelsea Appeal Ltd, and then ultimately to the Royal Hospital Chelsea.

iii Tricorne Traders Ltd

The company commenced trading in October 2010. It was formed following the transfer of the In-Pensioners Club to ensure that the trading activities of the Facilities Management Department went through a VAT registered entity. The company's profits are transferred under gift aid rules to Royal Hospital Chelsea Appeal Ltd, and then ultimately to the Royal Hospital Chelsea.

iv *RHC Prime Minister Scholars Ltd*

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

v *Gordon House (London) Ltd*

Gordon House (London) Limited was incorporated on 18 April 2012 as a company limited by shares. The company is a wholly owned subsidiary of the Royal Hospital Chelsea and all shares are held by the Commissioners.

The primary business of the company is to assist the Commissioners of the Royal Hospital Chelsea with the sale of the lease of the property known as Gordon House, Tite Street, London, SW3 4SR. The company is not a commercial trading company. Its only business is to hold a 1 per cent beneficial interest in the proceeds from the sale of the leasehold of Gordon House.

The company's profits are transferred under gift aid rules to Royal Hospital Chelsea.

Royal Hospital Chelsea Appeal Limited

Consolidated Statement of Financial Activities for the year ended 31 March	Unrestricted Funds	Restricted Funds	Group Funds	Group
	2013	2013	2013	2012
	£	£	£	£
Incoming resources				
Incoming resources from generated funds				
Voluntary income	702,535	304,000	1,006,535	1,790,743
Activities for generating funds	2,718,149	–	2,718,149	2,456,319
Investment income	12,078	–	12,078	12,305
Total incoming resources	<u>3,432,762</u>	<u>304,000</u>	<u>3,736,762</u>	<u>4,259,367</u>
Resources expended				
Costs of generating voluntary income	118,992	–	118,992	126,569
Fundraising trading	1,150,873	–	1,150,873	1,205,634
Charitable activities	1,472,016	389,408	1,861,424	1,635,574
Governance costs	40,465		40,465	25,818
Total resources expended	<u>2,782,346</u>	<u>389,408</u>	<u>3,171,754</u>	<u>2,993,595</u>
Net incoming/(outgoing) resources before and after taxation	650,416	(85,408)	565,008	1,265,772
Balance at the beginning of the year	1,282,301	85,664	1,367,965	102,193
Balance at the end of the year	<u>1,932,717</u>	<u>256</u>	<u>1,932,973</u>	<u>1,367,965</u>

Statement of Financial Activities for the year ended 31 March – Charity only	Unrestricted Funds	Restricted Funds	Charity Funds	Charity
	2013	2013	2013	2012
	£	£	£	£
Incoming resources				
Incoming resources from generated funds				
Voluntary income	702,535	304,000	1,006,535	1,790,743
Activities for generating funds	1,561,660	–	1,561,660	1,217,539
Investment income	2,068	–	2,068	5,136
Total incoming resources	<u>2,266,263</u>	<u>304,000</u>	<u>2,570,263</u>	<u>3,013,418</u>
Resources expended				
Costs of generating voluntary income	118,992	–	118,992	126,569
Charitable activities	1,472,016	389,408	1,861,424	1,635,574
Governance costs	13,996	–	13,996	5,796
Total resources expended	<u>1,605,004</u>	<u>389,408</u>	<u>1,994,412</u>	<u>1,767,939</u>
Net incoming/(outgoing) resources before and after taxation	661,259	(85,408)	575,851	1,245,479
Balance at the beginning of the year	1,215,409	85,664	1,301,073	55,594
Balance at the end of the year	<u>1,876,668</u>	<u>256</u>	<u>1,876,924</u>	<u>1,301,073</u>
Balance Sheets as at 31 March	Group	Group	Charity	Charity
	2013	2012	2013	2012
	£	£	£	£
Fixed assets				
Tangible fixed assets	74,577	88,006	–	–
Investments	–	–	2,100	2,100
Total fixed assets	74,577	88,006	2,100	2,100
Current assets				
Stock	156,419	154,766	–	–
Debtors	157,628	148,411	1,587,089	1,240,235
Cash at bank and in hand	2,404,131	1,823,657	299,692	73,492
Total current assets	<u>2,718,178</u>	<u>2,126,834</u>	<u>1,886,781</u>	<u>1,313,727</u>
Current liabilities				
Creditors falling due within one year	(859,782)	(846,875)	(11,957)	(14,754)
Net current assets	1,858,396	1,279,959	1,874,824	1,298,973
Net assets	<u>1,932,973</u>	<u>1,367,965</u>	<u>1,874,924</u>	<u>1,301,073</u>
Reserves				
Unrestricted funds	1,932,717	1,282,301	1,876,668	1,215,409
Restricted funds	256	85,664	256	85,664
Total Reserves	<u>1,932,973</u>	<u>1,367,965</u>	<u>1,876,924</u>	<u>1,301,073</u>

Expenditure shown under costs of generating voluntary income comprises of donations from Royal Hospital Chelsea Appeal Ltd to the Royal Hospital Chelsea. In the consolidated group accounts, expenditure is reduced by **£1,861,424** (2012: £1,635,574) in respect of intercompany donations.

Chelsea Pensioner (RH) Limited

Profit and Loss account for the year ending 31 March

	2013	2012
	£	£
Turnover	2,315,868	2,089,516
Cost of sales	(87,674)	(110,504)
Gross profit	2,228,194	1,979,012
Administrative expenses	(817,440)	(795,721)
Other operating charges	(23,736)	(18,567)
Operating profit	1,387,018	1,164,724
Interest receivable and similar income	9,977	7,169
Qualifying donation under Gift Aid	(1,406,368)	(1,161,414)
Loss/(profit) on ordinary activities before taxation	(9,373)	10,479
Tax on profit of ordinary activities	-	-
Loss/(profit) on ordinary activities after taxation	(9,373)	10,479
Reserves brought forward	58,078	47,599
Reserves carried forward	48,705	58,078

Summary Balance Sheet as at 31 March

	2013	2012
	£	£
Fixed assets	60,317	70,976
Stock	153,863	148,041
Debtors	123,137	112,743
Cash	1,925,887	1,686,545
Current liabilities	(2,214,499)	(1,960,227)
Total reserves at the end of period	48,705	58,078

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

	2013	2012
	£	£
Turnover	402,281	366,803
Cost of sales	(217,060)	(229,681)
Gross profit	185,221	137,122
Administrative expenses	(31,399)	(71,183)
Operating profit	153,822	65,939
Qualifying donation under Gift Aid	(155,292)	(56,125)
Loss/(profit) on ordinary activities before taxation	(1,470)	9,814
Tax on profit of ordinary activities	-	-
Loss/(profit) on ordinary activities after taxation	(1,470)	9,814
Reserves brought forward	10,814	1,000
Reserves carried forward	9,344	10,814

Summary Balance Sheet as at 31 March

	2013	2012
	£	£
Fixed assets	14,261	17,030
Stock	2,556	6,725
Debtors	14,048	19,748
Cash	178,552	63,620
Current liabilities	(200,073)	(96,309)
Total reserves at the end of period	9,344	10,814

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

	2013
	£
Turnover	-
Cost of sales	-
Gross profit	-
Administrative expenses	(14,040)
Interest receivable	189
Profit on sale of fixed assets	83,900
Unrealised gain on investments	8,354
Operating profit	78,403
Qualifying donation under Gift Aid	(263,517)
Loss on ordinary activities before taxation	(185,114)
Tax on profit of ordinary activities	-
Loss on ordinary activities after taxation	(185,114)
Issue of share capital on incorporation	417,431
Reserves carried forward	232,317

Summary Balance Sheet as at 31 March**2013****£**

Fixed assets	403,354
Debtors	73,900
Cash	25,403
Current liabilities	(270,340)
Total reserves at the end of period	<u>232,317</u>

11 Tangible fixed assets*Heritage and non heritage*

	Assets in the course of construction	Land and buildings	Plant, machinery and equipment	Vehicles	Exhibits	Group Total
	£	£	£	£	£	£
Cost or valuation						
At 1 April 2012	3,301,610	475,873,946	3,585,577	153,046	15,782,515	498,696,694
Additions at cost	4,648,776	–	206,405	42,894	2,751	4,900,826
Revaluation	–	(649,146)	–	–	–	(649,146)
Reclassification	(2,870,827)	2,870,827	–	–	–	–
Disposals	–	(4,371,466)	(11,509)	–	–	(4,382,975)
At 31 March 2013	<u>5,079,559</u>	<u>473,724,161</u>	<u>3,780,473</u>	<u>195,940</u>	<u>15,785,266</u>	<u>498,565,399</u>
Depreciation						
At 1 April 2012	–	652,117	957,675	72,293	–	1,682,085
Charge for the year	–	6,514,366	241,529	11,030	–	6,766,925
Revaluation	–	(649,146)	–	–	–	(649,146)
Reclassification	–	–	–	–	–	–
Disposals	–	(74,779)	(2,684)	–	–	(77,463)
At 31 March 2013	<u>–</u>	<u>6,442,558</u>	<u>1,196,520</u>	<u>83,323</u>	<u>–</u>	<u>7,722,401</u>
Net book value						
At 1 April 2012	3,301,610	475,221,829	2,627,902	80,753	15,782,515	497,014,609
At 31 March 2013	<u>5,079,559</u>	<u>467,281,603</u>	<u>2,583,953</u>	<u>112,617</u>	<u>15,785,266</u>	<u>490,842,998</u>

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

Grant in Aid Fund	–	–	365,059	29,367	–	394,426
Army Prize Money and Legacy Fund	5,079,559	467,263,775	2,162,144	83,250	15,785,266	490,373,994
Subsidiaries	–	17,828	56,750	–	–	74,578
	<u>5,079,559</u>	<u>467,281,603</u>	<u>2,583,953</u>	<u>112,617</u>	<u>15,785,266</u>	<u>490,842,998</u>

Heritage

	Assets in the course of construction	Land and buildings	Plant, machinery and equipment	Vehicles	Exhibits	Group Total
	£	£	£	£	£	£
Cost or valuation						
At 1 April 2012	–	240,000	–	–	15,782,515	16,022,515
Additions at cost	–	–	–	–	2,751	2,751
Revaluation	–	–	–	–	–	–
Disposals	–	–	–	–	–	–
At 31 March 2013	–	240,000	–	–	15,785,266	16,025,266
Depreciation						
At 1 April 2012	–	–	–	–	–	–
Charge for the year	–	–	–	–	–	–
Disposals	–	–	–	–	–	–
At 31 March 2013	–	–	–	–	–	–
Net book value						
At 1 April 2012	–	240,000	–	–	15,782,515	16,022,515
At 31 March 2013	–	240,000	–	–	15,785,266	16,025,266

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

Grant in Aid Fund	–	–	–	–	–	–
Army Prize Money and Legacy Fund	–	240,000	–	–	15,785,266	16,025,266
Subsidiaries	–	–	–	–	–	–
	–	240,000	–	–	15,785,266	16,025,266

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

Non heritage

	Assets in the course of construction	Land and buildings	Plant, machinery and equipment	Vehicles	Exhibits	Group Total
	£	£	£	£	£	£
Cost or valuation						
At 1 April 2012	3,301,610	475,633,946	3,585,577	153,046	–	482,674,179
Additions at cost	4,648,776	–	206,405	42,894	–	4,898,075
Revaluation	–	(649,146)	–	–	–	(649,146)
Reclassification	(2,870,827)	2,870,827	–	–	–	–
Disposals	–	(4,371,466)	(11,509)	–	–	(4,382,975)
At 31 March 2013	5,079,559	473,484,161	3,780,473	195,940	–	482,540,133
Depreciation						
At 1 April 2012	–	652,117	957,675	72,293	–	1,682,085
Charge for the year	–	6,514,366	241,529	11,030	–	6,766,925
Revaluation	–	(649,146)	–	–	–	(649,146)
Reclassification	–	–	–	–	–	–
Disposals	–	(74,779)	(2,684)	–	–	(77,463)
At 31 March 2013	–	6,442,558	1,196,520	83,323	–	7,722,401
Net book value						
At 1 April 2012	3,301,610	474,981,829	2,627,902	80,753	–	480,992,094
At 31 March 2013	5,079,559	467,041,603	2,583,953	112,617	–	474,817,732

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

Grant in Aid Fund	–	–	365,059	29,367	–	394,426
Army Prize Money and Legacy Fund	5,079,559	467,023,775	2,162,144	83,250	–	474,348,728
Subsidiaries	–	17,828	56,750	–	–	74,578
	5,079,559	467,041,603	2,583,953	112,617	–	474,817,732

- i Operational land and buildings were revalued as at 31 March 2012 at depreciated replacement cost.
- ii Accumulated depreciation based on the former value was transferred to the revaluation reserve.
- iii The revaluation is adjustment of £649,146 in both cost and accumulated depreciation is the write off of a historic balance from a prior valuation as has a nil impact on the balance sheet.

Operational Estate

Non-Heritage Assets

In March 2012 Savills were requested to undertake the quinquennial revaluation of the Royal Hospital Chelsea estate. Savills provided a valuation in accordance with RICS guidance on the following basis:

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

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

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

Heritage Assets

Heritage assets as defined under FRS30 were valued by Gurr-Johns as at June 2011 and were valued at market value with the exception of three exhibits which are accounted for at cost. The three items were all acquired in recent years and the cost price is still a good measure of value. Four new items were purchased during the year and recorded at cost. The next revaluation will be in 2016-17.

- a The Royal Hospital Chelsea's heritage assets are principally composed of art and artefacts and it has a holding of 786 (2012: 782) such exhibits with a total value of £15,785,266 (2012: £15,782,515). By value the principal items are paintings, prints, drawings and photographs, antique furniture, sculpture and silver and gold. The collection also includes arms and armour, books, clocks, medals, the Royal Hospital Mace and a stained glass window.

The items currently held at valuation total £15,733,316 (2012: £15,733,316) and those held at cost total £51,950 (2012: £49,199). The increase in value of those held at cost arises because the most recent purchase are still held at cost. The Exhibits are deemed to have indeterminate lives and the Commissioners consider it inappropriate to charge depreciation. The revaluation of the exhibits took place to allow all exhibits to be reported under FRS30

- b Additionally there is one piece of land known as Royal Avenue, which also is classed as a heritage asset. This represents the original approach road to the Royal Hospital Chelsea from the Kings Road and gives a view of the Royal Hospital Chelsea as intended by Sir Christopher Wren. It was valued by Savills as at 31 March 2012 with a market value of £240,000 (2012: £240,000). The revaluation of Royal Avenue took place as part of the quinquennial revaluation of the Royal Hospital Chelsea's estate.
- c The Royal Hospital Chelsea does not have a policy of actively acquiring new heritage assets, although a small number have been added e.g. a new stained glass window for All Saints Chapel. It ensures that the heritage assets are properly recorded and kept in good condition and does not dispose of them. Many of the exhibits are accessible to the public visiting the site either in guided parties or individually.

d A summary of heritage asset transactions going back to the year before adoption of the standard is below:

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

In accordance with FRS30 this disclosure is restricted to one year before the adoption of the standard. There were no disposals or known impairments of heritage assets during the year.

12 Investment property

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

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

	2013	2012
	£	£
Balance at the start of the year	58,500,000	21,910,000
Additions: Gordon House from operational estate at net book value	4,296,687	–
Revaluation for the year	36,603,313	36,590,000
Disposals: Gordon House Leasehold	(40,500,000)	–
Freehold land and buildings at valuation	58,900,000	<u>58,500,000</u>

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

During the year the property known as Gordon House was transferred from the operational estate to the investment estate at net book value of £4,296,687 which was then valued by Savills at a market value of £40,500,000. The Commissioners of the Royal Hospital Chelsea retain the freehold (value £400,000). The proceeds from the sale of the Gordon House leasehold are restricted by the Royal Borough of Kensington and Chelsea under S106 for the use on heritage capital expenditure and therefore cannot be utilised for routine maintenance or day to day operational expenditure.

13 Listed investments

	2013	2012
	£	£
Market value at 1 April 2012	11,522,551	11,749,123
Additions at cost	35,173,766	6,731,547
Cost of investments sold	(22,071,364)	(6,099,568)
Unrealised revaluation gain/(loss)	2,120,958	(858,551)
Market value at 31 March 2013	<u>26,745,911</u>	<u>11,522,551</u>
Historical cost at the beginning of the year	10,417,867	9,785,888
Historical cost as at the end of the year	23,520,269	10,417,867

Investments are held in the Alpha Common Investment Fund, managed by Sarasin & Partners LLP. The investment objective of the Fund is to achieve long term capital and income growth. It is intended that this will be achieved by investment in a broadly diversified global portfolio covering the world's principal stock, bond and currency markets, together with investments in 'alternative' assets such as property related securities and units in hedge funds.

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

14 Long-term debtor

	Group	Group	Charity	Charity
	2013	2012	2013	2012
	£	£	£	£
Gordon House debtor due after 1 year	<u>21,500,000</u>	–	<u>21,285,000</u>	–

The long term debtor represents the proportion of proceeds from the sale of the Gordon House lease that will be received in 2014 and 2015 (£10,750,000 in October of each year).

15 Stock

	Group	Group	Charity	Charity
	2013	2012	2013	2012
	£	£	£	£
Stock	<u>156,419</u>	<u>154,766</u>	<u>–</u>	–

Stock is held in two of the trading subsidiaries, Chelsea Pensioner (RH) Ltd for the souvenir shop and in Tricorne Traders Ltd for the club and the café. There is no material difference between the Balance Sheet value of stock and its replacement cost.

16 Debtors

	Group 2013 £	Group 2012 £	Charity 2013 £	Charity 2012 £
Trade debtors	120,043	195,824	7,416	90,312
Prepayments and accrued income	191,160	133,976	154,929	100,697
Amounts due from subsidiary undertakings	–	–	311,714	30,074
Other debtors	31,334	–	28,213	–
Gordon House debtor due within 1 year	7,390,000	–	7,316,100	–
Total	<u>7,732,537</u>	<u>329,800</u>	<u>7,818,372</u>	<u>221,083</u>

The short term Gordon House debtor represents the proportion of proceeds from the sale of the Gordon House lease that will be received in October 2013.

17 Cash at bank and in hand

	Group 2013 £	Group 2012 £	Charity 2013 £	Charity 2012 £
Term deposits	–	1,300,000	–	1,300,000
Cash at bank	7,814,203	2,356,626	5,403,407	537,202
Cash in hand	23,246	5,158	4,508	925
Total	<u>7,837,449</u>	<u>3,661,784</u>	<u>5,407,915</u>	<u>1,838,127</u>

18 Creditors: amounts falling due within one year

	Group 2013 £	Group 2012 £	Charity 2013 £	Charity 2012 £
Trade creditors	1,061,862	161,921	1,027,736	141,023
Accruals and deferred income	838,847	1,777,442	135,736	1,028,263
Amounts due to subsidiary undertakings	–	–	6,133	–
Other creditors	519,352	422,793	437,696	385,689
Total	<u>2,420,061</u>	<u>2,362,156</u>	<u>1,607,301</u>	<u>1,554,975</u>

19 Creditors: amounts falling due after one year

	Group 2013 £	Group 2012 £	Charity 2013 £	Charity 2012 £
Chapel music foundation	82,955	79,982	82,955	79,982
Chapel fund	103,006	14,136	103,006	14,136
Advance funeral payments	12,000	12,000	12,000	12,000
Total	<u>197,961</u>	<u>106,118</u>	<u>197,961</u>	<u>106,118</u>

20 Pension liability

	Group	Group	Charity	Charity
	2013	2012	2013	2012
	£	£	£	£
Defined benefit pension liability	414,000	425,000	414,000	425,000
Total	<u>414,000</u>	<u>425,000</u>	<u>414,000</u>	<u>425,000</u>

21 Contingent liabilities

There are no contingent liabilities.

22 Related party transactions

Any related party transactions between the Hospital and its subsidiary companies are covered under Note 8.

The register of interests for Commissioners and Senior Staff is updated annually at the end of the financial year. All related party transactions with Commissioners have been disclosed in Note 8 and in the Governance Statement on page 16.

23 Pensions

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

Principal Civil Service Pension Scheme (PCSPS)

Pension benefits for 156 (2012: 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).

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 2013, employers' contributions of £668,126 were payable to the PCSPS (2012: £658,833) at one of four rates in the range of 16.7 per cent to 24.3 per cent of pensionable pay, based on salary bands. Employer contributions are to be reviewed every four years following a full scheme valuation by the Government Actuary. Rates will remain the same next year. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

NHS Pension Scheme (NHSPS)

The Royal Hospital Chelsea has 66 (2012: 71) members of staff in the NHS Pension Scheme which is an unfunded multi-employer defined benefit scheme, but the Royal Hospital Chelsea is unable to identify its share of the underlying assets and liabilities. The last formal actuarial valuation undertaken for the NHS Pension Scheme was completed as at 31 March 2004 (published in December 2007). Consequently, a formal actuarial valuation would have been due to have been completed as at 31 March 2008. However, formal actuarial valuations for unfunded public service pension schemes have been suspended by HM Treasury on value for money grounds while consideration is given to recent changes to public service pensions and while future scheme terms are developed as part of the reforms to public service pension provision. The primary purpose of the formal actuarial valuations is to set employer and employee contribution rates, and these are currently being determined under the new scheme design. Between valuations, the Government Actuary provides an update of the scheme's liabilities on an annual basis. The latest assessment of the liabilities of the scheme is contained in the Scheme Actuary report, which forms part of the NHS Pension Scheme (England and Wales) Resource Account, published annually.

These accounts can be viewed at the NHS Pensions Agency website at www.nhsbsa.nhs.uk/pensions. This is a statutory, defined benefit scheme, the provisions of which are contained in the NHS Pension Scheme Regulations 1995 and 2008. Under these regulations the Royal Hospital Chelsea is required to pay an employer's contribution, currently 14 per cent of pensionable pay, as specified by the Secretary of State for Health. For 2013, employers' contributions of £218,213 were payable to the NHS Pension Scheme (2012: £217,388). These contributions are charged to operating expenses as and when they become due.

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

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

Unfunded scheme

Former Governors, Lieutenant Governors and Captains of Invalids are members of an unfunded defined benefit scheme. The scheme has 14 (2012: 14) retired members (or their widows) and is now closed to new entrants. The scheme is a final salary scheme with benefits based on number of years' service and final salary. Pensions paid during the year amounted to £41,000 (2012: £43,000).

Financial Reporting Standard 17 (FRS17) – Retirement benefits

The latest FRS17 valuation of the liabilities in respect of the unfunded pension entitlements was carried out as at 31 March 2013, by an independent qualified actuary, using the key FRS17 assumptions set out in the following table, which reflect the nature of the liabilities. These pensions are all currently in payment and increase with price inflation (measured using the Consumer Prices Index).

Assumptions	2013	2012
Price inflation/pension increase per annum	2.2%	2.1%
Discount rate per annum	3.2%	4.3%

On the basis of the assumptions used for life expectancy, a male pensioner currently aged 80 would be expected to live for a further 10 years (2012: 11 years).

The following table sets out as at 31 March 2013 the present value of the FRS17 liabilities, which is equal to the gross pension liability, along with a four-year history. No further benefits are currently being earned under this arrangement.

	2013	2012	2011	2010	2009
	£	£	£	£	£
Defined pension scheme liability	<u>414,000</u>	<u>425,000</u>	<u>432,000</u>	<u>474,000</u>	<u>423,000</u>

The gross pension liability resides within the Royal Hospital Chelsea's unrestricted funds. Its only impact on the resources available for general application are, the annual payments to the pensioners of £41,000 for 2013 (2012: £43,000).

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

	Year to 31 March	
	2013	2012
	£	£
Gross pension liability at the beginning of the year	425,000	432,000
Pensions paid	(41,000)	(43,000)
Interest cost	17,000	22,000
Actuarial (gain)/loss on defined benefit pension scheme	13,000	14,000
Gross pension liability at the end of the year	<u>414,000</u>	<u>425,000</u>

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

	Year to 31 March	
	2013	2012
	£	£
Interest on gross pension liability	17,000	22,000
Past service credit	-	-
Total pension expense	<u>17,000</u>	<u>22,000</u>

The amount recognised in the 'gains and losses' categories of SOFA under the heading 'actuarial gains and losses on defined benefit pension schemes' for the year to 31 March 2013 is a loss of £13,000 (2012: loss of £14,000). 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 £132,000 (2012: loss of £119,000).

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

	Balance sheet as at 31 March				
	2013	2012	2011	2010	2009
Experience gains/(losses) on liabilities	(12,000)	(3,000)	(4,000)	(4,000)	43,000
Percentage of the present value of liabilities	-3%	-1%	-1%	-1%	10%

24 Operating leases

Rentals payable under operating leases are charged to the SOFA as incurred over the term of the lease. These leases are principally in respect of office equipment. In 2013 payments of £60,789 (2012: £60,371) were made in respect of operating leases.

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

Operating leases which expire:	2013	2012
	Other £	Other £
Within one year	27,120	4,409
In two to five years	8,635	56,252
Over five years	7,506	–

25 Capital commitments

	2013 £	2012 £
Authorised and contracted	10,622,060	3,879,645

The sum for 2013 is predominantly for work committed on the Long Wards (Phase II – East Wing) contract being commitments entered into in November 2011. This work commenced in November 2012 and is due for completion later in 2013. An element of this amount is also for temporary accommodation required during the Long Ward modernisation programme. Over the next five years capital commitments relating to the Long Wards programme and other capital commitments such as the South Ground Roads project are expected to be in the region of £21,282,693.

26 Losses and write offs

There were no losses and write offs in the year ended 31 March 2013. In the year ended 31 March 2012 an overpayment occurred in the closed unfunded pension scheme amounting to £2,205. This was due to a computational error and given the age of the individuals involved the decision was taken not to recover this amount.

27 Movement in funds

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

	Balance as at 1 April 2012 £	Incoming resources £	Resources expended £	Gains / (losses) £	Inter- company transactions £	Transfers £	Balance as at 31 March 2013 £
Unrestricted Funds							
Grant in Aid	(367,724)	11,703,610	(12,994,941)	(13,000)	–	–	(1,672,055)
Army Prize Money and Legacy Fund							
General reserve	249,968,991	2,555,267	(8,374,524)	2,758,779	1,735,534	6,303,586	254,947,633
Ingram Trust	2,358	–	–	–	–	–	2,358
Drouly Trust	452,979	–	–	–	–	–	452,979
Ranelagh & de la Fontaine Trust Capital	7,248	–	–	–	–	–	7,248
Revaluation Reserve	316,857,416	–	–	–	–	–	316,857,416

	Balance as at 1 April 2012	Incoming resources	Resources expended	Gains / (losses)	Inter- company transactions	Transfers	Balance as at 31 March 2013
	£	£	£	£	£	£	£
Gordon House (London) Limited	-	189	(14,040)	92,254	(263,517)	-	(185,114)
RHC Appeal Group Ltd	1,282,301	3,432,762	(1,310,329)	-	(1,472,017)	-	1,932,717
Total unrestricted funds	568,203,569	17,691,828	(22,693,834)	2,838,033	-	6,303,586	572,343,182
Restricted Funds							
Army Prize Money and Legacy Fund							
Campbell Ward	-	-	(268,959)	-	296,000	-	27,041
Long Wards project	-	-	(3,000)	-	3,000	-	-
Chelsea Pensioners Club	-	-	(5,000)	-	5,000	-	-
Cadogan Donation	1,003	100,000	(79,425)	-	-	-	21,578
Gordon House Fund	-	-	-	44,509,413	85,408	(6,303,586)	38,291,235
RHC Appeal Group Ltd	85,664	304,000	-	-	(389,408)	-	256
Total restricted funds	86,667	404,000	(356,384)	44,509,413	-	(6,303,586)	38,340,110
	568,290,236	18,095,828	(23,050,218)	47,347,446	-	-	610,683,292

Unrestricted Funds

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

Restricted Funds

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

Campbell Ward

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

Chelsea Pensioner Club

The Chelsea Pensioner Club fund represents legacy funds received through subsidiary Royal Hospital Chelsea Appeal Ltd and are restricted to use by the In-Pensioners' club.

Cadogan

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

Gordon House Fund

The Gordon House Fund represents the proceeds from the disposal of the Gordon House lease during the year on a 201 year lease less expenditure to date. The lease was sold to generate income for capital projects such as the Long Ward modernisation programme which cannot be funded out of Grant in Aid. As defined by the S106 issued by the Royal Borough of Kensington and Chelsea the proceeds are restricted to the use of heritage capital expenditure and therefore prohibits the use of these funds for any day to day operational expenditure including routine repairs and maintenance costs.

28 Derivatives and other Financial Instruments

FRS25 (Financial Instruments Presentation) and FRS29 (Financial Instruments Disclosure) require disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities.

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

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

Interest Rate Risk

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

Currency Risk

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

Market Price Risk

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

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

29 Post balance sheet events

Since the balance sheet date the Royal Hospital Chelsea has been in negotiations with the developers of Chelsea Barracks (Qatari Diar) and as a result has won a compensation payment of approximately £450,000 on the basis of 'right -to- light'. The contract was signed on 1 October 2013 and the funds were received shortly thereafter. These funds will be regarded as unrestricted income and will be recorded in the 2013-14 financial year.

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