

Royal Hospital Chelsea Account 2016-17

Royal Hospital Chelsea Account 2016-17

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Officers and Commissioners

Chairman of the Board of Commissioners

HM Paymaster General

Ex-officio Commissioners

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

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

Minister for Defence Personnel, Welfare and Veterans – M Lancaster TD MP (to 12 June 2017)

Director Resources and Command Secretary (Army) – D Stephens Esq

Senior Health Adviser (Army) – Brigadier Paul Cain (from 1 January 2017)

Assistant Chief of the General Staff – Major General N Welch OBE

Governor, Royal Hospital Chelsea – General Sir Reddy Watt KCB KCVO CBE DL

Specially Appointed Commissioners

S Corbyn Esq (to 30 April 2017)

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

Professor Lord Kakkar PC

FDS Rosier Esq

Mrs A Gillibrand

Dame Barbara Monroe DBE

M Gallagher Esq

Charles Lewington Esq OBE

Ms J Cleary

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Annual Report of the Commissioners

Introduction

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

This report should be read in conjunction with the Governance Statement on page 14 which outlines in detail the structure and governance of the RHC and its Board.

Governing documents and charitable objectives

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

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

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

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

The RHC is staffed for 24-hours a day, 365 days of the year. There is always someone on hand to provide assistance for IPs if required. The RHC has 274 staff (2016: 270) of whom 101 (2016: 104) are medical, nursing and care staff.

Public benefit statement

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

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

In recent years the RHC has carried out a major programme of works to modernise the IPs' accommodation so that it remains fit for purpose in the 21st Century, and to restore and maintain the heritage buildings and grounds. The Long Wards have been remodelled and refurbished and other areas of the RHC, including the Great Hall and Chapel, have been restored. This work was completed during the 2016-17 financial year.

Monitoring of performance

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

The Commissioners undertook a review of the corporate governance of the RHC in 2015 designed to assess and improve the effectiveness of the Board's performance overseeing the work of the RHC as a whole. The report found that the RHC's governance procedures generally worked well but the corporate structure and some internal procedures were quite complex and would benefit from clarification and simplification. As a result of this it was decided to reduce the number of trading subsidiary companies from two to one, with Tricorne Traders Ltd ceasing to trade from 1 April 2016. The Terms of Reference of the sub-committees of the Board were also revised and simplified. The RHC's new internal auditors, RSM Risk Assurance Services LLP, reviewed governance arrangements during the year and made a number of further recommendations which were received by the Audit Committee in March 2017.

Employees

Employees are kept informed of the performance and objectives of the RHC 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.

Appropriate policies are in place to ensure the RHC complies with the Equality Act 2010 and that full and fair consideration is given to all applicants for all job vacancies.

Volunteers

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

Future Strategy

The RHC's high-level objectives – to provide care for the In-Pensioners and safeguard the heritage of the buildings and grounds – remain unchanged. However since the new Chief Executive, Gary Lashko, took up his post on 1 February 2016, work has begun on a number of new initiatives.

- i A new vision and mission statement for the RHC has been agreed. The statement reads:-

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

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

- ii A 20-year financial plan, including a building maintenance plan, has been developed. The plan was approved by the Board of Commissioners in January 2017.

- iii A new business plan is being developed. The over-arching strategy calls for the maintenance of a strong military ethos at the RHC, whilst at the same time taking steps to ensure high-quality care for IPs, maintain long-term financial sustainability and continuing the RHC's strong relationship with the Army, the MoD and other service charities. Within this framework detailed targets for the various areas of the RHC's activity are being worked up.
- iv An outside firm of consultants, Civis, was employed to review the RHC's care services and their report was received in the Summer of 2016. It recommended a reduction in the number of registered care beds in the MTI and increased domiciliary and social care support for In-Pensioners. The recommendations have been accepted and implemented.
- v A new Director of Fundraising and Communication was appointed and took up his post in March 2017. Fundraising and Communication strategy will be re-evaluated in 2017-18 and more demanding income targets are expected to result.

Review of achievements and performance for the year 2016-2017

Executive Summary 2016 – 17

The year covered by this review saw significant changes at the RHC. The Chief Executive, Gary Lashko, took up his post on 1 February 2016, and so 2016-17 was his first full year in office. Under his guidance the Board of Commissioners adopted a high-level strategy document which formed the basis of a more detailed business plan which is now being developed. The strategy sets out the “ends, ways and means” for the RHC over the next few years. The overall aims of the strategy are to keep the RHC a much valued and loved national institution and to be able to provide appropriate care and support on the existing site for Army veterans, including veterans of Iraq and Afghanistan in 50 years’ time. The strategy sets out a number of ways and means of achieving these ends and progress toward them is set out below.

Maintain the RHC’s military ethos and our strong relationship with the MoD and defence ministers

During the year the RHC made a number of changes to its structures to ensure that the strong military ethos and links with the Army and MoD are maintained and deepened. A Military Meeting chaired by the Governor, and attended by the most senior staff with Army experience, the Chief Executive and the Director of Health and Welfare, is held on a monthly basis. It was also agreed to appoint an additional Captain of Invalids to supplement the three Captains already in post. Lt Col Jonathan Lowe was appointed and he took up his post in July 2017. During the year the then Minister of State for Defence Personnel, Welfare and Veterans, Mark Lancaster TD MP, participated in meetings of the Board of Commissioners. The RHC was also visited by the other ministers, senior Army officers and civilian MoD staff. The Army’s Director of Resources and Command Secretary, David Stephens, and ACGS, Maj Gen Nick Welch OBE, continue to serve as ex-officio Commissioners and we welcomed the new Senior Health Adviser (Army) , Brig Paul Cain, to the Board during the year. IPs continue to participate in a wide variety of military events and commemorations both in the UK and abroad and the Hospital received frequent visits from serving soldiers and regimental associations. We have continued to work with other charities including the Army Benevolent Fund (ABF) The Soldiers’ Charity, Combat Stress, the Gurkha Welfare Trust and Walking with the Wounded. Links with SSAFA (formerly the Soldiers, Sailors, Airmen & Families’ Association) are healthy and we support each of their caseworker courses and have admitted In- Pensioners into the RHC through this link.

Provide high quality care focused on the needs of the IPs, maintain our integrated care, welfare and support model and increase the number of IPs in residence to 310

The final phase of the Long Wards project, the West Wing and North West Pavilion, was completed in late 2015. All the RHC’s berths (residential accommodation) is now refurbished to a high standard and we can now house a maximum of 320 IPs. There is inevitably some delay between berths becoming vacant and new IPs moving in, and to allow for this we are working to a target of 310 IPs in residence at any one time. During the refurbishment work capacity fell to 280 we are now building up from that figure toward the 310 target. At 31 March 2017 there were 291 IPs living at the Hospital. After Gary Lashko took up the post of Chief Executive Officer in February 2016 he commissioned a report on the RHC’s care and support services from Civis, a firm of consultants in supported housing and social care. Civis found that some aspects of care at the RHC were not aligned to the needs of the IP population. In particular some nursing care places in the Margaret Thatcher Infirmary (MTI) were occupied by IPs who did not need full nursing care. A greater emphasis on providing domiciliary care on the Long Wards would be more cost effective and would enable IPs to remain on the Long Wards with support, rather than move into the MTI. Civis also recommended that the separate management structures for the Long Wards and MTI should be combined into a single Department of Health and Welfare. The new department came into being on 1 August 2016, and the former Matron, Col Laura Bale, became its interim Director. Col Bale retired on 31 January 2017, and Professor Deborah Sturdy OBE was appointed to replace her. The number of registered care beds in the MTI was reduced to 50 in December 2016. Prior to the reduction, in the Summer of 2016, the MTI was inspected by the Care Quality Commission and was found to be “outstanding” – a distinction awarded to only around 7% of facilities that are inspected by the CQC. This was a very pleasing result and a tribute to the efforts of all the staff in the MTI and support staff in other areas of the RHC.

Develop a new policy for the selection of IPs and a new contribution system

New selection criteria have been drawn up to coincide with the completion of the Long Ward refurbishment programme. Applications are initially assessed using a scoring matrix which allocates points for various criteria including army service, willingness and ability to contribute to the life of the RHC community and represent it at public events, social and financial need. Those who are successful at this stage are taken forward for discussions with RHC staff, medical reports and finally a four-day visit during which applicants learn about life at the RHC. Applicants are mentored by an existing IP during the four-day visit. After this a final decision on admission is made by both the RHC and the applicant. In addition to relinquishing all military pensions (but not pensions from other sources) IPs admitted since 2010 may be required to pay contributions of up to £175 per week – the amount payable is subject to a means test and not all IPs are assessed as being able to afford to make contributions. The contribution system is currently being reviewed. Details are still under discussion and a new system is not expected to be ready until early 2018 to allow time for consultation with interested parties but it is expected that the maximum contribution will be raised above its current level. However, no IP will be left with a weekly income below the level of the state old age pension for a single person which at the time of writing is £159.55.

Maintain our listed estate to high standards

Preservation of the historic buildings and grounds remains fundamental to the RHC. Over the past few years the Wren buildings, including the Long Wards, Chapel, Great Hall and the Pavilions have been completely refurbished. The South Terrace has also been restored, including the removal of a number of trees and shrubs which obscured the historic view of the South Front from the Thames Embankment. This work was funded through the sale of a long lease on Gordon House. During the year the final stages of this programme – the roofs and the surface outside the North Front – were completed. The operational estate is now in an excellent state of repair and in order to ensure it remains so a 20 - year maintenance plan has been drawn up to inform future planning and budgeting. The costs of the plan have been factored in to the RHC's long term financial projections.

Develop a strategy for fundraising and increase income from investments and commercial activities

The RHC has not had a coordinated fundraising strategy in recent years and receipts from legacies and donations represent only around 5% of total income. The last major fundraising campaign was the appeal to build the MTI which was completed in 2009. One of the objectives set out by the new CEO is to increase amounts received from fundraising and through the activities of the Friends of the RHC. A new post of Fundraising and Communications Director was created early in the year but recruitment of a suitable candidate took longer than expected and the post was not filled until February 2017, when Martin Field took up his appointment. Work has now commenced on a number of fundraising projects and also on rebuilding of the RHC's network of potential donors. Income from commercial activities arises mostly from events and associated catering, with a smaller contribution from the shop and post office and from Burton Court memberships. Income from all these sources rose during the year, and further increases are expected in 2017-18. This is primarily because a third large event, the "Global Champions" show-jumping competition, will be taking place at the RHC in 2017. Therefore the RHC will host three large events, the Chelsea Flower Show, Masterpiece, and Global Champions in 2017-18. Further work to develop the RHC's commercial strategy, including a study by Cambridge Judge Business School, is underway.

Long term financial planning

The Board of Commissioners received the first draft of a 20-year financial strategy at its meeting in January 2017. The RHC is vulnerable to the higher rates of inflation that are now expected because the Grant in Aid, which forms about 60% of income, comes from the Army budget. We cannot assume that Grant in Aid will increase to cover cost inflation. Therefore the RHC will have to find other ways of closing the budget gap that higher cost inflation will create. Options for increasing income through additional events and by renting out residential property on the periphery of the site on a commercial basis are being worked up. It is likely also that cost reductions will need to be found.

Other Developments

A proposal from a sports medicine company to occupy the Soane Stable Block is currently under consideration. This block is the only part of the heritage site that has not yet been refurbished. Discussions are continuing but this project is at an early stage and depends on satisfactory terms being agreed and also on planning consent being received from RBKC and approval from English Heritage. No final decisions are likely in the near future.

The new CEO has streamlined the RHC's management structures and replaced the former Management Board with a smaller Executive Board. The Executive Board consist of the CEO, the Directors of Health and Welfare, HR, Finance and Fundraising and Communications and the Quartermaster. It meets monthly.

A new logo and brand image has been approved. It is designed to be easier to reproduce in electronic media as well as on business cards and letterheads. The logo was the subject of extensive consultation both inside and outside the RHC and has been well received at all levels.

Financial review and results for the year

The total funding received from the Ministry of Defence was £11,994,000 (2016: £11,875,000). Income from other sources, including fundraising activities, investments and donations was £8,884,000. (2016: £7,928,000). Total income was £20,878,000, an increase of some £1,075,000 (5%) on 2016. Costs attributable to RHC's charitable activities were £16,540,000 (2016: £19,686,000), a decrease of £3,146,000 (15%). Other costs (excluding the one-off estate impairment of £111,787,000 in 2016) were £2,019,000, (2016 £2,475,000), a decrease of £457,000 (18%). The decrease in costs is due primarily to greatly reduced depreciation charges following the revaluation of the RHC's estate in 2016.

Net income, after movements on investments, was £10,197,000 (2016: net expenditure, after an impairment charge following the valuation of the RHC's operational building, £94,915,000). Taking into account other gains and losses total funds increased from £260,379,000 in 2016 to £276,531,000 this year (see below & notes 1 & 26).

Total funds donated through the Royal RHC Chelsea Appeal Ltd Group amounted to £3,710,000 (2015: £3,647,000). Trading results of the subsidiaries are discussed below and further details are contained in note 10 to the accounts.

Valuation

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

The values were reviewed at 31 March 2017 by the RHC. There has been little movement in market values of property in Chelsea during the year. However, the "modern equivalent" value of the operational estate was increased by 4%, representing the increase in building costs during the year. This resulted in an increase of £3,955,000 in the value of the operational estate. The market-based valuation for the MTI was not increased as market values for care home facilities have not changed significantly during the year. The values of the RHC's investment properties have been increased by 5% to reflect the fact that the long leases granted on them are now one year closer to reversion. This resulted in an increase of £3,812,000 in the value of the investment estate.

Trading subsidiaries

Royal Hospital Chelsea Appeal Ltd Group

The RHC Appeal Group consists of a holding company and two trading subsidiaries. The holding company, which is also a registered charity, is RHC Appeal Ltd. The two trading subsidiaries are Tricorne Trading Ltd and Chelsea Pensioner (Royal Hospital) Ltd. The subsidiary donates their profits to the parent company, which in turn makes donations to the RHC. At the end of the year Royal Hospital Chelsea Appeal Ltd Group held reserves of £3,558,000 (2016: £3,705,000) of which £198,000 (2016: £4,000) was restricted. During the year the subsidiary donated a total of £3,710,000 (2016: £3,647,000) to the RHC. With effect from 1 April 2016 the activities of Tricorne Traders Ltd were subsumed into Chelsea Pensioner (Royal Hospital) Ltd in order to simplify the RHC's corporate structure.

Gordon House (London) Ltd

Gordon House (London) Ltd was incorporated in 2012-13 in order to assist the Commissioners of the RHC with the sale of the lease of the property known as Gordon House, which was achieved in 2012-13. The subsidiary made a loss in 2016-17 and therefore has not gift-aided any of its income for the year to its parent undertaking the RHC. The proceeds of the sale of the lease have been used for capital works at the RHC, primarily the Long Ward modernisation programme.

Pension liability

Although most of the employees of the RHC are members of the Principal Civil Service Pension Scheme, some former Governors, Lieutenant Governors and Captains of Invalids are members of an unfunded defined benefit scheme which is paid out of current income. The scheme has 10 retired members (or their widows), and was closed to new entrants some years ago. The scheme is a final salary scheme with benefits based on number of years' service and final salary. Under Financial Reporting Standard (FRS)17: Retirement Benefits, there is a pension liability of £334,000 (2016: £329,000) attributable to the Grant in Aid fund (see note 22).

Reserves policy

The Board of Commissioners, on the advice of the Audit Committee, adopted a new reserves policy during the year. The policy is set out below.

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

The RHC's reserves policy is as follows:

General Reserves

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

Restricted Reserves

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

Designated Reserves

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

At 31 March 2016 the RHC held cash reserves of £7,125,000, which represents approximately five months' unrestricted running costs (excluding depreciation). Unrestricted liquid reserves (cash and traded investments) were £47,432,000, which represents 3.9 years' GiA funding and 2.8 years' unrestricted running costs (excluding depreciation).

Investment policy

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

The Commissioners 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 RHC.

Investment objectives

- **Army Prize Money and Legacy Fund:** To achieve capital growth over the longer term with a medium level of risk. Dividend income will be re-invested.
- **Gordon House Fund:** To be invested on a short term basis to maximise income with no capital risk. This Fund will hold monies that will be required for capital investment in the short to medium term.

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

Tangible fixed assets

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

The values were reviewed by the RHC at 31 March 2017. There has been little movement in market values of property in the area during the year. However the "modern equivalent" value of the operational properties was increased by £3,955,000 to reflect the increase in rebuilding costs over the year. The value of the MTI (which is valued at market value) was not changed as there has been little movement in the market during the year.

Investment property was also revalued by Savills at 31 March 2016, and these values were also reviewed by the RHC during the year. As a result investment property was valued at £93,222,000 (2016: £89,410,000) at the year-end. Market values of property in Chelsea have not changed greatly but an increase in value arises because the long leases on which most investment properties are let are now one year closer to reversion.

Heritage Assets and exhibits were revalued during the year by Gurr Johns. The current value of Heritage Assets, including land and exhibits is £18,437,000 (2016: £16,405,000).

Plant machinery and equipment has a net book value of £2,334,000 (2016: £2,526,000) and vehicles have a net book value of £157,000 (2016: £147,000).

Audit arrangements

The consolidated accounts of the RHC were audited by the Comptroller and Auditor General in accordance with the Chelsea Hospital Act 1876. An audit fee of £48,000 has been charged for the group audit and is included in Governance costs. No non-audit work was carried out by the auditor in 2016-17. The audit fee for 2015-16 included in the accounts was £44,500 but an additional £6,000 arising from additional work on the presentation of the revaluation of property assets was charged subsequently.

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

Accounting Officer

The RHC's CEO and Accounting Officer, who served throughout the 2016-17 financial year, is Mr Gary Lashko.

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

31 October 2017

Governance Statement

Governance Framework

Governing Documents

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

Grant in Aid Framework Document

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

The Financial Framework was revised on 21 October 2014. The Chief Executive Officer of the RHC is the Accounting Officer. Mr Gary Lashko has held this post since 1 February 2016.

Charity Accounting and reporting responsibilities

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

In preparing the accounts the Charity is required to:

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

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

Register of Interests

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

Organisational Structure, governance and decision-making

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

The Chief Executive Officer (CEO) is responsible to the Governor and Board of Commissioners for the effective and efficient management of the RHC, for the delivery and implementation of strategy set by the Board of Commissioners and for ensuring that the RHC complies with all relevant statutory requirements. He reports directly to the Governor and is head of the RHC management structure. Responsibility for day to day operations and the development of policy for the approval of the Board of Commissioners lies with the Executive Board, which is chaired by the Chief Executive Officer.

Board of Commissioners structure

The Board of Commissioners comprises a mix of ex-officio and Specially Appointed Commissioners. The former include the Governor (de facto Chairman), the Assistant Chief of the General Staff (to represent the Army), the Senior Health Adviser (Army), and the Director of Resources and Command Secretary (Army) who acts as the conduit through which the Grant in Aid is paid to the RHC and provides expert oversight. There are also three Ministers who for historic reasons are ex-officio Commissioners. While these Ministers do not play an active part in the governance or strategic management of the organisation, they visit for briefing, are made aware of major issues and receive copies of appropriate correspondence, including Board minutes.

The Specially Appointed Commissioners, of whom there are 10, are in effect the core trustees of the Royal RHC 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 the Nolan principles.

Board of Commissioners governance

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

The Board of Commissioners met four times during the year. The Governor and Chief Executive Officer are always present. At each meeting the Board considers a comprehensive report from the Chief Executive Officer covering all aspects of the RHC's business, both reporting on what has transpired since the previous meeting and flagging up future plans and emerging issues. The Board is then able to give guidance and direction on these matters. Individual members of the Board also regularly hold meetings with the executive on matters within their particular areas of competence. The Board also receives minutes and other reports from its committees.

Board Committees

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

Audit Committee

The Audit Committee is made up of the following Commissioners:

Mrs A Gillibrand (Chair)
S Corbyn Esq (to 30 April 2017)
FDS Rosier Esq
D Stephens Esq - Director Resources and Command and Secretary (Army)

The Audit Committee met twice during the year to consider financial management and reporting, the high level risk register and the reports of the RHC's auditors. During the year RSM were appointed to replace CCW as the RHC's internal auditors.

Nominations Committee

The Nominations Committee is made up of the following Commissioners:

J Fenwick QC (Chair) (to 31 May 2017)
D Stephens Esq - Director Resources and Command and Secretary (Army)
Mrs A Gillibrand

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

In the year under review and to the date of signing this report, two new Specially Appointed Commissioners were appointed, both of whom joined the Board after the year-end. These appointments replace two Commissioners who completed their terms of office in April and May 2017. Each new Commissioner completes a programme of induction on appointment and is thereafter provided with relevant information and support.

Remuneration Committee

The Remuneration Committee is made up of the following Commissioners:

D Stephens Esq – Director Resources and Command and Secretary (Army)
J Fenwick Esq QC (Chair) (to 31 May 2017)
Dame Barbara Monroe DBE

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

Investment Committee

The Investment Committee is made up of the following Commissioners:

FDS Rosier Esq (Chair)
 Professor Lord Kakkar
 C Lewington Esq OBE

The Investment Committee met twice during the year under review. In that time they conducted a review of the RHC's investment management arrangements and performance of Sarasin & Partners LLP.

Health and Wellbeing Oversight Committee

The Health and Wellbeing Oversight Committee (formerly the Clinical Governance Oversight Committee) is made up of the following Commissioners:

Dame B Monroe DBE (Chair)
 Professor Lord Kakkar (to 31 January 2017)
 M Gallagher Esq
 Ms J Cleary
 Brigd P Cain (from 1 February 2017)

The Health and Wellbeing Oversight Committee met four times during the year under review. In addition to monitoring performance and risk, and providing advice to the executive, the Committee noted in particular the "outstanding" rating awarded to the MTI following the CQC inspection. The Committee also agreed to expand its terms of reference to cover all areas of the new Department of Health and Wellbeing which was came into being on 1 August 2016.

Estates Committee

The Estates Committee is made up of the following Commissioners:

S Corbyn Esq (Chair) (to 30 April 2017)
 C Lewington Esq OBE
 Ms Jo Cleary

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

Executive Board

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

Chief Executive – G Lashko

Quartermaster (Director of Facilities) – Lieutenant Colonel A Hickling MBE MBIFM

Director of Health and Wellbeing – Colonel L Bale RRC (to 31 January 2017)

– Professor D Sturdy OBE (from 1 February 2017)

Finance Director - N Cattermole ACMA

HR Director – C Kowolkowski MCIPD

Fundraising and Communications Director – M Field (from 1 March 2017)

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

Subsidiary companies

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

Royal Hospital Chelsea Appeal Ltd Group

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

This Charitable Company has three wholly owned commercial trading subsidiaries being Chelsea Pensioner (RH) Ltd (company number 03853787), Tricorne Traders Ltd (company number 07382655) and RHC Prime Minister Scholars Ltd (company number 07509639); the latter two are currently dormant. Chelsea Pensioner (RH) Ltd is the trading arm responsible primarily for the management of the Souvenir Shop, events, marketing and communications. Tricorne Traders Ltd formerly ran the Chelsea Pensioner Club, MTI Café and also provided catering and staff for functions. From 1 April 2016 the activities of Tricorne Traders and CPRH were merged into CPRH and Tricorne Traders Ltd became dormant.

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

Gordon House (London) Ltd

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

Review of effectiveness of internal control

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

External audits

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

Internal audits

In addition to the two external auditors, the RHC is also subject to regular internal audits to standards defined in the Government Internal Audit Manual. The internal auditors in 2016-17 were RSM Risk Assurance Services LLP. RSM produced three reports during the year – these covered Financial Controls, Risk Management and Governance. The RHC is also audited from time to time by the Defence Internal Audit (DIA) on the use of the Grant in Aid funds.

Fraud prevention and detection

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

Risk control framework

Risk appetite

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

Key risks and controls

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

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

a Financial

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

b Reputational

This is managed by having clear policies in place for handling the media, by having an active Public Relations programme, and by training key staff.

c Physical Security and Cyber Security

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

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

Factors outside the control of the RHC

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

- A change in national attitudes towards the armed services which might undermine public (and thus political) support for the institution (and so affect the Grant in Aid).
- The Ministry of Defence reducing the grant in aid in real terms as a budgetary measure. This is the principal reason why the Commissioners are intent on moving progressively towards establishing greater financial self-sufficiency.
- Competition from other military charities. There are a number of other charities which support veterans and competition for funds is likely to increase. This has the potential to affect fundraising.
- The number of veterans is declining as the generations who were conscripted during and after the second world war die out and this may impact on recruitment.
- The introduction of future legislation which might increase the cost base, for example by creating more demanding care regulations requiring additional staff.
- Economic uncertainties which may arise from the Brexit process, or from other causes, would compound the first three factors listed above.

Review of effectiveness of the Board

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

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

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

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

31 October 2017

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

I have audited the financial statements of Royal Hospital Chelsea for the year ended 31 March 2017 under the Chelsea Hospital Act 1876. The financial statements comprise: the Consolidated and Charity Statements of Financial Activities, the Consolidated and Charity Balance Sheets, the Consolidated Statement of Cash Flows and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Commissioners, Accounting Officer and Auditor

As explained more fully in Governance Statement, the Commissioners and the Accounting Officer are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and report on 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 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 of the Commissioners to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

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 2017 and of its net income 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 it.

Opinion on other matters

In my opinion:

- the information given in the Annual Report of the Commissioners; the Review of achievements and performance; and the 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 returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements are not in agreement with the accounting records and returns; 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.

Sir Amyas C E Morse KCB
Comptroller and Auditor General

23 November 2017

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

Consolidated Group Statement of Financial Activities for the year ended 31 March 2017

		Unrestricted 2017	Restricted 2017	Total 2017	Total 2016
	Notes	£000	£000	£000	£000
Income and endowments from:					
Voluntary income – donations and legacies	2	848	310	1,158	1,411
Charitable activities – MOD Grant in Aid	5	11,994	–	11,994	11,875
Other trading activities – events and fundraising	3	3,710	–	3,710	3,647
Investments	4	2,568	–	2,568	1,861
Other income	6	1,448	–	1,448	1,009
Total Income and Endowments		20,568	310	20,878	19,803
Expenditure on:					
Raising funds	7	1,850	–	1,850	2,322
Charitable activities					
Infirmity nursing and medical	7	6,668	7	6,675	5,085
Welfare and ceremonial	7	2,223	109	2,332	5,218
Facilities management	7	7,533	–	7,533	9,383
Other activities - investment management costs	7	169	–	169	153
Impairment of Estate	11	–	–	–	111,787
Total Expenditure		18,443	116	18,559	133,948
Net gains/(losses) on investments	12 & 13	7,878	–	7,878	19,230
Net income/(expenditure)		10,003	194	10,197	(94,915)
Other recognised gains/(losses)					
Gains/(losses) on revaluation of fixed assets	26	5,987	–	5,987	(266,644)
Actuarial gain/(loss) on defined benefit pension scheme	22	(32)	–	(32)	13
Net movement in funds		15,958	194	16,152	(361,546)
Reconciliation of funds					
Total funds brought forward	26	256,183	4,196	260,379	621,925
Total funds carried forward		272,141	4,390	276,531	260,379

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 2017

	Notes	Unrestricted 2017 £000	Restricted 2017 £000	Total 2017 £000	Total 2016 £000
Income and Endowments from					
Voluntary income - donations and legacies	2	3,329	–	3,329	1,426
Charitable activities – Grant In Aid MOD	5	11,994	–	11,994	11,875
Investment income	4	2,559	–	2,559	1,856
Other income	6	1,224	–	1,224	936
Total Income and Endowments		19,106	–	19,106	16,093
Expenditure On:					
Raising funds		299	–	299	517
Charitable activities					
Infirmity nursing and medical		6,631	–	6,631	5,080
Welfare and ceremonial		2,116	–	2,116	5,218
Facilities management		7,423	–	7,423	9,376
Other activities – investment management costs		169	–	169	153
Impairment of estate	11	–	–	–	111,787
Total Expenditure		16,638	–	16,638	132,131
Net gain/(loss) on investments	12 & 13	7,878	–	7,878	19,230
Net income/(expenditure)		10,346	–	10,346	(96,808)
Other recognised gains/(losses)					
Gain/loss on revaluation of fixed assets	26	5,987	–	5,987	(266,644)
Actuarial gain/(loss) on defined benefit pension scheme	22	(32)	–	(32)	13
Net movement in funds		16,301	–	16,301	(363,439)
Reconciliation of funds					
Total funds brought forward	26	252,680	4,192	256,872	620,311
Total funds carried forward		268,981	4,192	273,173	256,872

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

Balance Sheets as at 31 March 2017

	Notes	Charity 2017 £000	Charity 2016 £000	Group 2017 £000	Group 2016 £000
Fixed Assets					
Heritage	11	18,437	16,405	18,437	16,405
Non heritage	11	119,935	115,204	119,989	115,279
Investment property	12	93,222	89,410	93,222	89,410
Listed Investments	13	40,724	28,621	40,307	28,205
		272,318	249,640	271,955	249,299
Current assets					
Stock	14	–	–	139	132
Debtors: falling due within one year	15	345	272	1,106	716
Cash at bank and in hand	16	2,857	10,222	7,125	15,223
		3,202	10,494	8,370	16,071
Current Liabilities					
Creditors: amounts falling due within one year	17	(1,894)	(2,766)	(3,341)	(4,495)
Net current assets/(liabilities)		1,308	7,728	5,029	11,576
Total assets less current liabilities					
		273,626	257,368	276,984	260,875
Creditors: amounts falling due after one year	18	(119)	(167)	(119)	(167)
Net assets excluding pension liability		273,507	275,201	276,865	260,708
Defined pension scheme liability	19	(334)	(329)	(334)	(329)
Net assets/(liabilities)		273,173	256,872	276,531	260,379
Funds					
Grant in Aid Fund	26	(6,652)	(5,547)	(6,652)	(5,547)
<i>Army Prize Money and Legacy Fund</i>					
Restricted Funds	26	4,192	4,192	4,192	4,192
Unrestricted Funds	26	265,977	258,220	265,977	258,220
Revaluation Reserve	26	5,987	–	5,987	–
Ranelagh and De la Fontaine Trust Capital	26	7	7	7	7
<i>Gordon House (London) Limited</i>	26	–	–	(200)	(198)
<i>Royal Hospital Chelsea Appeal Ltd Group</i>					
Restricted	26	–	–	198	4
Unrestricted	26	–	–	3,360	3,701
Designated reserve – building maintenance	26	3,662	–	3,662	–
Total funds		273,173	256,872	276,531	260,379

Signed on behalf of the Board of Commissioners on 31 October 2017

General Sir Redmond Watt KCB KCVO CBE DL
Governor/ChairmanFDS Rosier
Deputy ChairmanA Gillibrand
Chair of the Audit Committee

Consolidated Statement of Cash Flows for the year ended 31 March 2017

	Group 2017	Group 2016
	£000	£000
Net cash provided by/(used in) operating activities	(658)	14,093
Cash flows from investing activities:		
Dividends, interest and rents from investments	2,568	1,075
Proceeds from the sale of fixed assets	8	1,631
Purchase of fixed assets	(1,948)	(12,024)
Proceeds from the sale of investments	4,271	–
Purchase of investments	(12,339)	(4,526)
Net cash provided by/(used in) investing activities	(7,440)	(13,844)
Cash flows from financing activities	–	–
Change in cash and cash equivalents in the year	(8,098)	249
Cash and Cash equivalents at beginning of the year	15,223	14,974
Cash and Cash equivalents at the end of the year	<u>7,125</u>	<u>15,223</u>
Note 1		
Reconciliation of net income/(expenditure) to net cash flow from operating activities		
Net income/(expenditure) for the year	10,197	(94,915)
Adjustments for		
Impairment of estate	–	111,787
Depreciation charges	1,185	5,463
(Gains)/losses on investments	(7,878)	(19,230)
Dividends, interest and rents from investments	(2,568)	(1,075)
Loss/(profit) on the sale of fixed assets	–	–
(Increase)/decrease in stocks	(7)	(3)
(Increase)/decrease in debtors	(390)	11,815
Increase/(decrease) in creditors	(1,202)	294
Movement on defined benefit pension scheme liability	5	(43)
Net cash provided by/(used in) operating activities	<u>(658)</u>	<u>14,093</u>
Note 2		
Analysis of cash and cash equivalents		
Cash at bank	7,125	8,923
Money market deposit account	–	6,300
Total cash and cash equivalents	<u>7,125</u>	<u>15,223</u>

Notes to the Financial Statements

1 Accounting Policies

a Basis of accounting

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

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

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

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

b Funds

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

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

c Incoming resources

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

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

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

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

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

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

d Resources expended

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

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

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

e Tangible fixed assets

i **Freehold property:** The RHC's operational land and buildings were revalued by Savills, an independent firm of chartered surveyors, at 31 March 2016. The Margaret Thatcher Infirmary building was valued on the basis of a market assessment, the valuers having advised that a market in modern care facilities exists in the area. The remainder of the operational estate was valued on the basis of a "modern equivalent," the valuers having advised that the unique and historic nature of the RHC and its buildings and the planning restrictions preventing development of the grounds meant that no meaningful market value could be arrived at. A "modern equivalent" valuation is an estimate of the cost of acquiring a modern facility that would enable the RHC to carry out its functions. The 2016 values provided by Savills were reviewed at 31 March 2017 by the RHC. This review resulted in an increase of £3,955,000 in the value of the RHC's operational property and an increase of £3,812,000 in the value of the investment property (see also "valuation" on page 10). The RHC obtains a full professional valuation of its operational estate every five years and the values are reviewed internally in the intervening years.

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

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

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

ii **Other tangible fixed assets:** are capitalised at their estimated depreciated replacement cost or at historic cost on acquisition. Since 2004 all new capital expenditure has been funded from the Army Prize Money and Legacy Fund. Improvements and additions in periods between valuations are capitalised at historic cost. Depreciation is provided at rates calculated to write off the value of each asset over its expected useful life with the exception of freehold land, assets in course of construction and exhibits which are not depreciated. Depreciation rates are as follows:

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

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

iii **Investment property:** Investment properties are shown at their open market value. These properties were revalued by an independent chartered surveyor at 31 March 2016 and the values were reviewed by the RHC at 31 March 2017. No depreciation is charged on investment properties.

- iv **Heritage assets:** Since 2001 new heritage assets are capitalised at cost upon acquisition. Heritage assets are capitalised as non-depreciating assets under the terms of FRS 102, which prevents operational assets being treated as heritage assets. In March 2017 a revaluation was undertaken of all existing heritage assets, such as the RHC’s paintings and artefacts, and these are included as heritage assets in note 11.
- v **Capitalisation thresholds:** The lower limit for capitalisation of land and buildings is £10,000. This threshold also applies to land and buildings which are heritage assets. For all other fixed assets it is £5,000. For the subsidiary charity and its subsidiaries £1,000 is deemed to be the appropriate capitalisation threshold.

f *Listed investments*

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

g *Pensions*

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

h *Taxation*

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

Irrecoverable VAT is included in the SOFA with the item to which it relates. The RHC is registered for VAT as a group.

i *Operating leases*

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

j *Stock*

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

2 Voluntary income

	Charity	Charity	Group	Group
	2017	2016	2017	2016
	£000	£000	£000	£000
Legacies and donations	<u>3,329</u>	<u>1,426</u>	<u>1,158</u>	<u>1,411</u>

3 Other Trading Activities

	Charity 2017 £000	Charity 2016 £000	Group 2017 £000	Group 2016 £000
RHC Appeal Limited	<u>-</u>	<u>-</u>	<u>3,710</u>	<u>3,647</u>

4 Investment income

	Charity 2017 £000	Charity 2016 £000	Group 2017 £000	Group 2016 £000
Income on investment portfolio	1,498	1,019	1,498	1,019
Income on commercial property	395	385	395	385
Lease Extension Premiums	659	401	659	402
Bank and investment interest received	<u>7</u>	<u>51</u>	<u>16</u>	<u>55</u>
Total	<u>2,559</u>	<u>1,856</u>	<u>2,568</u>	<u>1,861</u>

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

5 Income from charitable activities

	Charity 2017 £000	Charity 2016 £000	Group 2017 £000	Group 2016 £000
Grant in Aid received from the Ministry of Defence	<u>11,994</u>	<u>11,875</u>	<u>11,994</u>	<u>11,875</u>

6 Other income

	Charity 2017 £000	Charity 2016 £000	Group 2017 £000	Group 2016 £000
Staff accommodation charges	240	252	240	252
Family Practice	89	96	89	96
Food recoveries	52	49	52	49
Pension contributions (NHS)	110	110	110	110
In-Pensioner top-up fees	545	391	545	391
Other income	<u>188</u>	<u>38</u>	<u>412</u>	<u>111</u>
Total	<u>1,224</u>	<u>936</u>	<u>1,448</u>	<u>1,009</u>

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

7 Total resources expended (Group)

	Raising funds	Infirmity nursing and medical care	Welfare and ceremonial	Estate management	Support costs	Total 2017	Total 2016
	£000	£000	£000	£000	£000	£000	£000
Costs of generating voluntary income	876	-	106	-	4	986	100
Fundraising trading	-	-	-	-	-	-	776
Investment management costs	-	-	-	14	155	169	153
Staff costs	787	5,245	802	1,268	1,100	9,202	8,859
Other staff costs	1	36	3	15	111	166	198
Buildings and grounds maintenance costs	-	21	6	2,931	-	2,958	2,912
Information technology costs	-	-	-	-	138	138	108
In-pensioner living expenses	-	669	134	493	1	1,297	1,399
Catering costs	-	51	-	-	-	51	36
Council tax and rates	-	-	-	89	-	89	94
Security costs	-	-	-	69	724	793	743
Water, gas and electricity	-	-	-	565	-	565	593
Insurance	-	-	-	-	259	259	250
Audit fees	-	-	-	-	89	89	95
Accountancy fees	-	-	-	-	-	-	2
Surveyor fees	-	-	-	21	42	63	15
Consultancy fees	28	42	-	23	67	160	124
Legal fees	-	1	2	35	22	60	62
Office expenses	12	24	5	32	69	142	139
Other expenses	59	16	25	60	26	186	40
Depreciation	87	272	532	118	177	1,186	5,463
Impairment of estate	-	-	-	-	-	-	111,787
Total before re-allocation of support costs	1,850	6,377	1,615	5,733	2,984	18,559	133,948
Re-allocation of support costs	-	298	717	1,969	(2,984)	-	-
Total expenditure	1,850	6,675	2,332	7,702	-	18,559	133,948

8 Staff costs and numbers

	Charity	Charity	Group	Group
	2017	2016	2017	2016
	£000	£000	£000	£000
Salaries and wages	6,111	6,026	6,747	6,676
Social security costs	595	447	654	491
Pension costs	1,069	1,002	1,189	1,135
Sub-total	7,775	7,475	8,590	8,302
Casual and agency pay	520	470	520	470
In-pensioner pay	65	65	92	87
Total	8,360	8,010	9,202	8,859

Payments totalling £60,000 (2016: £30,000) in respect of redundancy and compensation for loss of office are included in the above table.

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

	2017	2016
	Number	Number
Infirmery nursing and medical	101	104
Welfare and ceremonial	10	12
Estates management	134	128
Finance and administration	15	15
Commercial services and fundraising	14	11
	274	270

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

Higher paid employees

The number of employees whose remuneration was over £60,000 in 2016 - 2017 (excluding pension contributions) was as follows:

Band	2017	2016
	Number	Number
£60,000 – £69,999	2	1
£70,000 – £79,999	1	–
£80,000 – £89,999	1	1
£90,000 – £99,999	1	1
£100,000 - £110,000	1*	–
£120,000 - £129,000	1	–

* Includes severance payment

Five (2016: two) of the above staff contribute to the PCSPS defined benefits pension scheme. Employer pension contributions for these staff were £99,000 (2016: £38,000).

The total remuneration of key management personnel was £555,000 (2016: £484,000). Employers' pension contributions for key management personnel were £105,000 (2016: £77,000).

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

	Actual salary 2017	Actual salary 2016	Real increase in pension during the year	Total accrued pension at the year end	Cash equivalent transfer value at start date	Cash equivalent transfer value at end date	Real increase in cash equivalent transfer value
	£000	£000	£000	£000	£000	£000	£000
Gen Sir Redmond Watt Governor	60-65	80-85	–	–	–	–	–
Gary Lashko Esq Chief Executive	120-129	15-20	0-5	2.5-5	7	50	34

Gen Sir Redmond Watt does not receive pension benefits from the RHC. Gary Lashko took up his position on 1 February 2016 so his 2016 salary covers only two months. Prior to Mr Lashko's appointment there was no CEO in post for some months and the Governor undertook additional duties during that period.

Commissioners' emoluments

None of the Commissioners received any remuneration for acting as Commissioners. Travel expenses of £358 (2016: £520) were claimed during the year by one (2016 : one) Commissioner. The Governor is a Commissioner and receives a salary as an employee of the RHC.

9 Governance costs

	Charity 2017	Charity 2016	Group 2017	Group 2016
	£000	£000	£000	£000
External Audit fees*	56	54	71	77
Internal Audit fees	18	18	18	18
Legal Fees	54	16	61	61
Consultancy fees	132	126	160	126
Bank charges	–	–	1	3
Total	<u>260</u>	<u>214</u>	<u>311</u>	<u>285</u>

£48,000 (2016 : £44,500) relates to the NAO audit fee charge for the year ended 31 March 2017.

£6,000 relates to an additional NAO charge for 2015-16 which was not accrued in that year.

10 Subsidiary undertakings

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

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

i RHC Appeal Ltd

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

It is also a registered charity (no 1076414). Its articles of association require that a majority of trustees be commissioners of the RHC. It donates all its profits to the RHC.

Its financial results for the year to 31 March 2017 were:

	2017	2016
	£000	£000
Incoming Resources	5,101	5,135
Outgoing Resources	<u>(5,248)</u>	<u>(3,240)</u>
Net incoming/(outgoing) resources	(147)	1,895
Balance at the beginning of the year	<u>3,705</u>	<u>1,810</u>
Balance at the end of the year	<u>3,558</u>	<u>3,705</u>

ii Gordon House (London) Ltd

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

Its financial results for the year to 31 March 2017 were:

	2017	2016
	£000	£000
Turnover	-	-
Cost of sales	-	-
Administrative costs	(2)	(2)
Other gains/(losses)	<u>-</u>	<u>-</u>
Loss for the year	(2)	(2)
Profit and loss account brought forward	(198)	(196)
Profit and loss account carried forward	<u>(200)</u>	<u>(198)</u>
Capital and reserves:		
Share capital	417	417
Profit and loss account	<u>(200)</u>	<u>(198)</u>
Total	<u>217</u>	<u>219</u>

iii Chelsea Pensioner (RH) Ltd

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

Its financial results for the year to 31 March 2017 were:

	2017	2016
	£000	£000
Turnover	3,710	3,077
Cost of sales	(355)	(84)
Administrative costs	(1,071)	(877)
Other operating expenses	(29)	(17)
Ordinary profit before interest and tax	<u>2,255</u>	<u>2,099</u>
Other gains/(losses):		
Bank interest receivable	7	4
(Loss) on disposal of asset	-	-
Donation to RHC Appeal Limited	<u>(2,262)</u>	<u>(2,129)</u>
Profit/(loss) for the year	-	(26)
Profit and loss account brought forward	<u>39</u>	<u>63</u>
Profit and loss account carried forward	<u>39</u>	<u>37</u>

Note – CPRH Profit & Loss Account

	£000
Balance at 31 March 2016	37
Profit transferred from Tricorne Traders Ltd	2
Balance at 31 March 2017	39

iv Tricorne Traders Ltd

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

v RHC Prime Minister Scholars Ltd

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

11 Tangible fixed assets*Heritage and non heritage*

	Assets in the course of construction	Land and buildings	Plant, machinery & equipment	Vehicles	Exhibits	Group Total 2017	Group Total 2016
	£000	£000	£000	£000	£000	£000	£000
Cost or valuation							
At 1 April	3,803	109,373	4,417	225	15,835	133,653	522,780
Additions at cost	1,829	–	84	35	–	1,948	12,024
Reclassification	(5,632)	5,632	–	–	–	–	–
Disposals	–	–	–	(8)	–	(8)	–
Revaluation	–	3,063	–	–	2,032	5,095	(401,151)
	<u>–</u>	<u>118,068</u>	<u>4,501</u>	<u>252</u>	<u>17,867</u>	<u>140,688</u>	<u>133,653</u>
Depreciation							
At 1 April	–	–	(1,891)	(78)	–	(1,969)	(19,227)
Depreciation charge for the year	–	(892)	(276)	(17)	–	(1,185)	(5,462)
Disposals	–	–	–	–	–	–	–
Revaluation	–	892	–	–	–	892	22,720
At 31 March	<u>–</u>	<u>–</u>	<u>(2,167)</u>	<u>(95)</u>	<u>–</u>	<u>(2,262)</u>	<u>(1,969)</u>
Net book value							
At 1 April	<u>3,803</u>	<u>109,373</u>	<u>2,526</u>	<u>147</u>	<u>15,835</u>	<u>131,684</u>	<u>503,553</u>
At 31 March	<u>–</u>	<u>118,068</u>	<u>2,334</u>	<u>157</u>	<u>17,867</u>	<u>138,426</u>	<u>131,684</u>

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

Grant in Aid Fund	–	–	228	12	–	240	259
Army Prize Money and Legacy Fund	–	118,056	2,066	145	17,867	138,134	131,351
Subsidiaries	–	12	40	–	–	52	74
	<u>–</u>	<u>118,068</u>	<u>2,334</u>	<u>157</u>	<u>17,867</u>	<u>138,426</u>	<u>131,684</u>

Heritage

	Assets in the course of construction	Land and buildings	Plant, machinery & equipment	Vehicles	Exhibits	Group Total 2017	Group Total 2016
	£000	£000	£000	£000	£000	£000	£000
Cost or valuation							
At 1 April	–	570	–	–	15,835	16,405	16,075
Revaluation at 31 March 2017	–	–	–	–	2,032	2,032	330
At 31 March	–	570	–	–	17,867	18,437	16,405
Depreciation							
At 1 April	–	–	–	–	–	–	–
At 31 March	–	–	–	–	–	–	–
Net book value							
At 1 April	–	570	–	–	15,835	16,405	16,075
Valuation at 31 March	–	570	–	–	17,867	18,437	16,405

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

Army Prize Money and Legacy Fund	–	570	–	–	17,867	18,437	16,405
	–	570	–	–	17,867	18,437	16,405

Non heritage

	Assets in the course of construction	Land and buildings	Plant, machinery & equipment	Vehicles	Exhibits	Group Total 2017	Group Total 2016
	£000	£000	£000	£000	£000	£000	£000
Cost or valuation							
At 1 April	3,803	108,803	4,417	225	-	117,248	506,705
Additions at cost	1,829	-	84	35	-	1,948	12,024
Reclassification	(5,632)	5,632	-	-	-	-	-
Disposals	-	-	-	(8)	-	(8)	-
Revaluation	-	3,063	-	-	-	3,063	(401,481)
	<u>-</u>	<u>117,498</u>	<u>4,501</u>	<u>252</u>	<u>-</u>	<u>122,251</u>	<u>117,248</u>
Depreciation							
At 1 April	-	-	(1,891)	(78)	-	(1,969)	(19,227)
Depreciation charge for the year	-	(892)	(276)	(17)	-	(1,185)	(5,462)
Disposals	-	-	-	-	-	-	-
Revaluation	-	892	-	-	-	892	22,720
At 31 March	<u>-</u>	<u>-</u>	<u>(2,167)</u>	<u>(95)</u>	<u>-</u>	<u>(2,262)</u>	<u>(1,969)</u>
Net book value							
At 1 April	<u>3,803</u>	<u>108,803</u>	<u>2,526</u>	<u>147</u>	<u>-</u>	<u>115,279</u>	<u>487,478</u>
At 31 March	<u>-</u>	<u>117,498</u>	<u>2,334</u>	<u>157</u>	<u>-</u>	<u>119,989</u>	<u>115,279</u>

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

Grant in Aid Fund	-	-	228	12	-	240	259
Army Prize Money and Legacy Fund	-	117,486	2,066	145	-	119,697	114,946
Subsidiaries	-	12	40	-	-	52	74
	<u>-</u>	<u>117,498</u>	<u>2,334</u>	<u>157</u>	<u>-</u>	<u>119,989</u>	<u>115,279</u>

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

Operational Estate

Non-Heritage Assets

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

The valuations accord with the requirements of IFRS 13, FRS 102 and the 19th Edition of the RICS Valuation – Professional Standards (incorporating the International Valuation Standards “The RICS Red Book”).

The values were reviewed by the RHC at 31 March 2017 (see page 10).

The valuations were arrived at predominantly by reference to market evidence for comparable property.

Heritage Assets

Heritage assets as defined under FRS 102 were valued by Gurr-Johns as at 31 March 2017.

- a The RHC’s heritage assets are principally composed of art and artefacts and it has a holding of 887 (2016: 789) such exhibits with a total value of £17,866,588 (2016: £15,834,766). By value the principal items are paintings, prints, drawings and photographs, antique furniture, sculpture and silver and gold. The collection also includes arms and armour, books, clocks, medals, the Royal Hospital Mace and a stained glass window. At the 2017 valuation a number of items not previously considered to be of heritage value were included. This accounts for the increased number of items in the valuation – these are not new acquisitions.

The items currently held at valuation total £17,866,588 (2016: £15,834,766)

The Exhibits are deemed to have indeterminate lives and the Commissioners consider it inappropriate to charge depreciation.

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

12 Investment property

	2017	2016
	£000	£000
Balance at 1 April	89,410	70,300
Disposal	(659)	(1,631)
Gain on revaluation	4,471	20,741
Balance at 31 March	<u>93,222</u>	<u>89,410</u>

Investment property consists of land and buildings which are not part of the RHC’s operational estate. Most of the investment property is currently let on long or short term leases or licences. Investment property consists of Chelsea Court, Embankment Gardens, Wellington Buildings and Chelsea Gardens, Gordon House and Royal Avenue.

13 Listed Investments

	2017	2016
	£000	£000
Market value at 1 April	28,205	25,178
Additions at cost	12,339	4,526
Cost of investments sold	(4,271)	-
Realised gain/(loss)	(32)	12
Unrealised gain/(loss)	4,066	(1,511)
Market value at 31 March	<u>40,307</u>	<u>28,205</u>
Historic cost at 1 April	23,626	18,933
Historic cost at 31 March	33,004	23,626

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

14 Stock

	Charity	Charity	Group	Group
	2017	2016	2017	2016
	£000	£000	£000	£000
Shop and catering stocks	<u>-</u>	<u>-</u>	<u>139</u>	<u>132</u>

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

15 Debtors: amounts falling due within one year

	Charity	Charity	Group	Group
	2017	2016	2017	2016
	£000	£000	£000	£000
Trade debtors	–	10	113	133
Prepayments and accrued income	186	163	980	190
Amounts due from subsidiary undertakings	148	–	–	–
Other debtors	11	99	14	393
Gordon House debtor due within 1 year	–	–	–	–
Total	<u>345</u>	<u>272</u>	<u>1,106</u>	<u>716</u>

16 Cash at bank and in hand

	Charity	Charity	Group	Group
	2017	2016	2017	2016
	£000	£000	£000	£000
Cash at bank and cash equivalents	2,856	10,221	7,124	15,222
Cash in hand	1	1	1	1
Total	<u>2,857</u>	<u>10,222</u>	<u>7,125</u>	<u>15,223</u>

17 Creditors: amounts falling due within one year

	Charity	Charity	Group	Group
	2017	2016	2017	2016
	£000	£000	£000	£000
Trade Creditors	–	1,312	147	1,369
Accruals and deferred income	242	1,451	1,944	1,640
Amounts due to subsidiary undertakings	406	3	–	–
Other creditors	1,246	–	1,250	1,486
Total	<u>1,894</u>	<u>2,766</u>	<u>3,341</u>	<u>4,495</u>

Movement on Deferred Income

	2017	2016
	£000	£000
Brought forward at the beginning of the year	1,635	1,456
Released to SOFA during the year	(1,635)	(1,456)
Deferred to future periods	1,674	1,635
Carried forward at the end of the year	<u>1,674</u>	<u>1,635</u>

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

18 Creditors - amounts falling due after more than one year

	Charity	Charity	Group	Group
	2017	2016	2017	2016
	£000	£000	£000	£000
Chapel music foundation	82	90	82	90
Chapel fund	11	59	11	59
Advance funeral payments	26	18	26	18
Total	<u>119</u>	<u>167</u>	<u>119</u>	<u>167</u>

19 Pension liability

	Charity	Charity	Group	Group
	2017	2016	2017	2016
	£000	£000	£000	£000
Defined Benefit Pension liability	<u>334</u>	<u>329</u>	<u>334</u>	<u>329</u>

20 Contingent liabilities

The RHC has no contingent liabilities.

21 Contingent assets

Under the terms of the agreement for the sale of the lease of Gordon House the RHC is entitled to a further sum of £22.1m from the buyer once certain conditions related to the sale of the property have been met. It is not yet possible to say precisely when this payment will become due, but it is not expected to be before 2019 at the earliest.

22 Pensions

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

Principal Civil Service Pension Scheme (PCSPS)

Pension benefits for 192 (2016: 164) members of staff are provided through the Civil Service Pension arrangements. From 1 April 2015 a new pension scheme for civil servants was introduced – the Civil Servants and Others Pension Scheme or alpha, which provides benefits on a career average basis with a normal pension age equal to the member's State Pension Age (or 65 if higher). From that date all newly appointed civil servants and the majority of those already in service joined alpha. Prior to that date, civil servants participated in the Principal Civil Service Pension Scheme (PCSPS). The PCSPS has four sections: 3 providing benefits on a final salary basis (classic, premium or classic plus) with a normal pension age of 60; and one providing benefits on a whole career basis (nuvos) with a normal pension age of 65.

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

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

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

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

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

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

For 2017, employers' contributions of £904,890 were payable to the PCSPS (2016: £879,245) at one of four rates in the range of 16.7% to 24.3% of pensionable pay, based on salary bands.

No contributions were payable to stakeholder schemes in 2017.

NHS Pension Scheme (NHSPS)

The RHC has 81 (2016: 74) members of staff in the NHS Pension Scheme which is an unfunded multi-employer defined benefit scheme, but the RHC is unable to identify its share of the underlying assets and liabilities. The last formal actuarial valuation undertaken for the NHS Pension Scheme was completed as at 31 March 2004 (published in December 2007). Consequently, a formal actuarial valuation would have been due to have been completed as at 31 March 2008. However, formal actuarial valuations for unfunded public service pension schemes have been suspended by HM Treasury on value for money grounds while consideration is given to recent changes to public service pensions and while future scheme terms are developed as part of the reforms to public service pension provision. The primary purpose of the formal actuarial valuations is to set employer and employee contribution rates, and these are currently being determined under the new scheme design. Between valuations, the Government Actuary provides an update of the scheme's liabilities on an annual basis. The latest assessment of the liabilities of the scheme is contained in the Scheme Actuary report, which forms part of the NHS Pension Scheme (England and Wales) Resource Account, published annually.

These accounts can be viewed at the NHS Pensions Agency website at www.nhsbsa.nhs.uk/pensions. This is a statutory, defined benefit scheme, the provisions of which are contained in the NHS Pension Scheme Regulations

1995 and 2008. Under these regulations the RHC is required to pay an employer's contribution, currently 14% of pensionable pay, as specified by the Secretary of State for Health. For 2017, employers' contributions of £239,448 were payable to the NHS Pension Scheme (2016: £253,154). These contributions are charged to operating expenses as and when they become due.

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

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

Unfunded scheme

Former Governors, Lieutenant Governors and Captains of Invalids are members of an unfunded defined benefit scheme. The scheme has 10 (2016: 10) retired members (or their widows) and is now closed to new entrants. The scheme is a final salary scheme with benefits based on number of years' service and final salary. Pensions paid during the year amounted to £35,411 (2016: £38,513).

Financial Reporting Standard 102 (FRS 102) – Retirement benefits

The latest FRS 102 valuation of the liabilities in respect of the unfunded pension entitlements was carried out as at 31 March 2016, by an independent qualified actuary, using the key FRS102 assumptions set out in the following table, which reflect the nature of the liabilities. These pensions are all currently in payment and increase with price inflation (measured using the Consumer Prices Index).

Assumptions	2017	2016
Price inflation/pension increase per annum	1.9%	1.3%
Discount rate per annum	1.7%	2.5%

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 (2016: 10 years).

The following table sets out as at 31 March 2017 the present value of the FRS 102 liabilities, which is equal to the gross pension liability, along with a 4-year history. No further benefits are currently being earned under this arrangement.

	2017	2016	2015	2014	2013
	£000	£000	£000	£000	£000
Defined benefit pension scheme liability	<u>334</u>	<u>329</u>	<u>372</u>	<u>390</u>	<u>414</u>

The gross pension liability resides within the RHC's unrestricted funds. Its only impact on the resources available for general application are, the annual payments to the pensioners of £35,000 for 2017 (2016: £39,000).

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

	Year to 31 March	
	2017	2016
	£000	£000
Gross pension liability at the beginning of the year	329	372
Pensions paid	(35)	(39)
Interest cost	8	9
Actuarial (gain)/loss on defined benefit pension scheme	32	(13)
Gross pension liability at the end of the year	<u>334</u>	<u>329</u>

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

	Year to 31 March	
	2017	2016
	£000	£000
Interest on gross pension liability	<u>8</u>	<u>9</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 2017 is a loss of £32,000 (2016: gain of £13,000). The cumulative amount recognised in the "gains and losses" categories of the SOFA since 2003 (as required by paragraph 28 of FRS 102) is a loss of £168,000 (2016: loss of £136,000).

23 Operating leases

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

	2017	2016
	£000	£000
Within 1 to 5 years	34	34
Within 2 to 5 years	10	10
After more than 5 years	-	-

24 Capital commitments

	2017	2016
	£000	£000
Authorised and contracted	2,709	1,407

The sum for 2017 is predominantly planned capital works on building and equipment plus works on roofing. There are some outstanding retention monies on earlier capital works completed in 2016.

25 Losses and write offs

There were no losses and write offs in the year ended 31 March 2017.

26 Movement in funds

	Balance as at 1 April 2016	Incoming resources	Resources expended	Other gains / (losses)	Transfers	Balance at 31 March 2017
	£000	£000	£000	£000	£000	£000
Unrestricted Funds						
Grant in Aid	(5,547)	11,994	(13,067)	(32)	-	(6,652)
Army Prize Money and Legacy Fund						
General reserve	258,220	3,783	(242)	7,878	(3,662)	265,977
Ranelagh & De La Fontaine Trust Capital	7	-	-	-	-	7
Revaluation Reserve	-	-	-	5,987	-	5,987
Gordon House London (Limited)	(198)	-	(2)	-	-	(200)
RHC Appeal Group Ltd	3,701	4,791	(5,132)	-	-	3,360
Total unrestricted funds	<u>256,183</u>	<u>20,568</u>	<u>(18,443)</u>	<u>13,833</u>	<u>(3,662)</u>	<u>268,479</u>
Restricted Funds						
Army Prize Money and Legacy Fund						
Campbell Ward	34	-	-	-	-	34
Cadogan Donation	27	-	-	-	-	27
IP Activities	72	-	-	-	-	72
MTI fund	34	-	-	-	-	34
Garden & Allotments	82	-	-	-	-	82
Gordon House Fund	3,943	-	-	-	-	3,943
RHC Appeal Group Ltd	4	310	(116)	-	-	198
Total restricted funds	<u>4,196</u>	<u>310</u>	<u>(116)</u>	<u>-</u>	<u>-</u>	<u>4,390</u>
Designated reserve – building maintenance	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,662</u>	<u>3,662</u>
Total funds	<u>260,379</u>	<u>20,878</u>	<u>(18,559)</u>	<u>13,833</u>	<u>-</u>	<u>276,531</u>

Unrestricted Funds

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

Designated funds

During the year the Board of Commissioners, on the advice of the Estates Committee, agreed to create a designated reserve for the maintenance of the RHC's operational buildings. It was agreed that the amount set aside should be the expected figure of maintenance expenditure for the ensuing year as shown in the RHC's 25-year maintenance plan. This amount has been transferred from APML general reserves to a designated building maintenance reserve.

Restricted Funds

The *Campbell Ward Fund* represents donations raised through a special appeal to create a specialist dementia care facility at the RHC.

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

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

The *Gordon House Fund* represents the proceeds of the sale of the Gordon House lease. Under the terms of the Section 106 agreement with RBKC these proceeds may only be used for heritage capital expenditure. The assets purchased are capitalised in the APML account when the various projects are completed and an appropriate transfer is made from the Gordon House reserve to APML general reserves.

27 Derivatives and other Financial Instruments

The RHC derives a significant proportion of its income from quoted investments. These investments are managed by professional fund managers, currently Sarasin & Partners. The Board of Commissioners has established an Investment Committee to formulate the investment policy and to monitor its implementation, with the objective of safeguarding the RHC's assets and maximising total return from them. The Committee meets regularly with the Investment Managers and monitors their performance against agreed benchmarks. A degree of risk is inherent in any quoted investment. Such investments are subject to:

Interest Rate Risk

The RHC has exposure to interest rate risk through its holdings in bonds and cash balances.

Currency Risk

The RHC is exposed to currency risk through its holdings in non-UK assets. Approximately 25% of the quoted investment portfolio is held in assets valued in currencies other than sterling.

Market Price Risk

The RHC is exposed to market price movements through all its investment holdings, apart from funds held in cash.

All of these risks are managed by the investment managers under the supervision of the Investment Committee.

28 Post balance sheet events

New ministerial Commissioners were appointed to the RHC following the General Election on 8 June 2017.

These accounts were authorised for issue on 23 November 2017

29 Related Parties

Some Commissioners have links with organisations with which the RHC has a financial relationship (such as the MoD and the Army). All Commissioners and senior managers complete an annual Declaration of Interests return and are required to declare any interest in items discussed at Board and Committee meetings. The Board is satisfied that no conflicts of interest arose during the year ended 31 March 2017.

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