

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

Royal Hospital Chelsea Account 2009-2010

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Officers and Commissioners

Chairman of the Board of Commissioners

HM Paymaster General

Ex-officio Commissioners (as at 31 March 2010)

HM Paymaster General – Rt Hon Tessa Jowell MP
Minister of State for the Armed Forces – Bill Ramell Esq MP
Under Secretary of State for Defence and Minister for Veterans – Kevan Jones Esq MP
The Governor, Royal Hospital Chelsea – General the Lord Walker GCB CMG CBE DL
Director General Resources Land Forces Command – NHR Evans Esq
Director General of Army Medical Services – Major General M von-Bertele OBE QHS
Assistant Chief of the General Staff – Major General J Bucknall CBE
Lieutenant Governor, Royal Hospital Chelsea – Major General APN Currie CB

Specially Appointed Commissioners

The Hon D McAlpine (retired March 2010)
Mr. G Flather OBE QC
Mr. R Moore
Lord Bilimoria CBE DL
Mrs S Phillips OBE DL
Professor Dame J Husband FMedSci FRCP FRCR
Sir M Jenkins KCMG
Mr S Corbyn
Mr D. McDonough OBE
Mr M Waterson CBE
Mr A Titchmarsh (appointed April 2010)

Secretary and Accounting Officer

PWD Hatt

Registered address

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Solicitors

Taylor Wessing
5 New Street Square
London
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Investment Managers

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

Chartered Surveyors

Cordea Savills LLP
20 Grosvenor Hill
London W1K 3HQ

Property Maintenance

Norland Managed Services Ltd
57 Southwark Street
London SE1 IRU

Bankers

Barclays Bank plc
1 Churchill Place
London E14 5HP

Annual Report of the Commissioners

Introduction

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

Governing documents and charitable objects

The statutory authority for the Royal Hospital is founded on Letters Patent from the Crown, which vests responsibility for its management in a Board of Commissioners. The current Letters Patent were issued on 23 November 2003. The Paymaster General is formally the Treasurer of the funds and Chairman of the Board of Commissioners who administer them, although in practice the Governor usually takes the chair. The management of the Royal Hospital are in discussion with the Charity Commissioners as to whether or not the Royal Hospital is required to register with them as a result of the Charities Act 2006.

The principal tasks of the Royal Hospital Chelsea are the care of the In-Pensioners and the conservation of its historic buildings and grounds. The cost of major capital projects and the upkeep of the grounds is not met from the Grant in Aid, but paid out of the Army Prize Money and Legacy Fund, a private fund owned by the Commissioners. That fund also provides additional support to the In-Pensioners which could not reasonably be expected to come from public funds, for example subsidised holidays and a television service.

The Royal Hospital provides 24-hour cover for 365 days of the year. The staff of the Royal Hospital number 235 full and part-time of whom 76 are medical, nursing and care staff.

An annual Grant in Aid from the Ministry of Defence provides for the maintenance of the Royal Hospital buildings and for meeting the cost of fuel and lighting, food, furniture, clothing, medical care for In-Pensioners, staff costs and certain payments to the In-Pensioners. In exchange, the In-Pensioners surrender their Army long service and/or their disability pensions when they are admitted to the Royal Hospital. The use to which the Grant in Aid fund is put is set out in detail in the notes to the Financial Statements. The Grant in Aid is governed by a Financial Memorandum signed on 1 September 2000. This will be replaced by a new Framework Document which is under negotiation.

Public benefit statement

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

The Royal Hospital Chelsea provides sheltered accommodation for Army veterans of either sex aged 65 or over and has care home facilities for use by former occupants of the sheltered accommodation. In addition to providing accommodation, food and nursing care, the Royal Hospital provides every opportunity for residents to engage in an active social life and to travel. Residents are also given the opportunity to participate in ceremonial events and to make contact with today’s soldiers.

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

Induction of Commissioners

The Commissioners of the Royal Hospital are appointed by the Sovereign from members of the Government, serving or retired military officers, Civil Servants or other distinguished individuals from the public and private sectors and are subject to scrutiny under the Nolan guidelines.

Each Commissioner is provided with information about the Royal Hospital, its structure, and how it is run, and the responsibilities of the Commissioners.

Organisational structure and decision making

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

Monitoring of performance

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

Accounting and reporting responsibilities

The Commissioners are required to make a proper presentation of accounts for each financial year. The accounts are required to give a true and fair view of the state of affairs of the Hospital at the year end, and of its incoming resources and application of resources for the financial year.

In preparing the accounts the Hospital is required to

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

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

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

Employees

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

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

Risk management

The Royal Hospital maintains a comprehensive risk register which is updated and reviewed by the Audit Committee. It aims to cover a wide range of topics including fire, legal, health and safety, financial, mismanagement, and terrorism. The main risk register is linked to the risk registers held for Health and Safety and Clinical Governance. There is also a business continuity plan should there be a catastrophic event such as a fire.

Factors outside the control of the Royal Hospital

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

Relationship with subsidiaries

The Commissioners form a majority of directors on the Board of Royal Hospital Chelsea Appeal Limited. This company has a wholly owned trading subsidiary, Chelsea Pensioner (RH) Ltd.

Aims, Objectives and Activities

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

Principal activities of the year

This has been the first full year of running the Margaret Thatcher Infirmary, which has contributed greatly to the life of the Royal Hospital. Throughout the year work has taken place on converting the former temporary infirmary to Long Wards with en suite accommodation. Planning work is underway on converting all Long Wards to en suite accommodation.

Volunteers

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

Review of achievements and performance for the year

Operational performance by department

Chaplain

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

Human resources

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

The rebalancing of staff skills in the Infirmary resulted in some redundancies, which although regretted were managed successfully. Recruiting for the Infirmary's new structure continues with over twenty Care Assistants already appointed some of whom have subsequently been promoted to Senior Care Assistants.

A review of Catering, undertaken by the Director of Facilities Management, resulted in some voluntary redundancies with the remaining jobs enriched and or re-titled to give staff more fulfilling jobs with more autonomy. Restructuring of the 'QM's' stores resulted in the recruitment of a Stores Manager and Stores Assistant.

In total nearly forty new members of staff have been recruited during the year. Other posts recruited for included some senior appointments; Captain of Invalids and Executive Officer. A similar number have left this year; a mixture of the redundancies mentioned, retirement and resignation.

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

Finance

The finance department provides financial and management accountancy services for all Royal Hospital funds, and provides accounting support to the limited company subsidiaries. It operates the Royal Hospital's payrolls. The department receives all cash and makes payments to suppliers. It provides treasury services for the funds of the Royal Hospital. It supports management decision making. It provides regular reports on financial performance to the Board of Commissioners and the Management Board. It supports the work of the Commissioners' Investment Committee and the Commissioners Audit Committee. It works closely with the Royal Hospital's external and internal auditors and with the external auditors of the two limited company subsidiaries. During the course of the year it has introduced much more stringent reviews of the financial accounts throughout the year, enhanced the budgeting process and provided financial management support to the introduction of the Government Procurement Card.

Information and Communications Technology

The department supports the information technology and communication systems throughout the Royal Hospital. During the course of the year it has extended the RHC's IT and telecommunications networks to the Margaret Thatcher Infirmary, including the provision of broadband and telephone to the infirmary residents, a new system to record In-pensioner information called Care Doc, and a nurse call system to assist the In-pensioner. ICT users have increased from 160 to 331. Disaster recovery has been strengthened, an upgrade has been provided to the Royal Hospital's accounting software and a Building System Management has been integrated with the RHC network.

Adjutant

The Adjutant's department deals with In-Pensioner admissions and with the daily welfare and administration of the Chelsea Pensioners. It was a good year for recruiting. Also the number of In Pensioners reverting was the lowest for a decade. It also runs the In-Pensioners' Club and the Prince of Wales Hall. During the year In-Pensioner numbers have averaged 302. The Adjutant's department is responsible for the Founder's Day parade, controls the number of requests from external organisations for visits by In-Pensioners of which there were 400 this year, an increase of 15 per cent on last year. It also provides contingents of Chelsea Pensioners for the Royal British Legion Remembrance Day Ceremony at the Royal Albert Hall and the Cenotaph, the Edinburgh Military Tattoo and many other national parades, regimental functions and events. The Department handed over responsible for Royal Hospital Security to the Director Facilities Management on 1 December.

Margaret Thatcher Infirmary

The Margaret Thatcher Infirmary has been opened since January 2009. It incorporates a Care Home with Nursing & Residential Care and a Medical Centre delivering Primary Health Care to all In Pensioners and entitled Staff. The building offers excellent facilities and has stimulated international interest as an environment for care of the elderly. We are developing a reputation as a benchmark for how old age communities can flourish in a framework of shared history and comradeship. We are regulated by the Care Quality Commission and the Kensington and Chelsea Primary Care Trust. Our Quality and Risk Profile is rated good to excellent in both the Care Home and the Medical Centre. Care is delivered through the multi-disciplinary team and led by the Physician and Surgeon (a senior GP) and the Matron. There is a strong emphasis on training and development and the Core Values of the Margaret Thatcher Infirmary are firmly based on the dignity and respect every Chelsea Pensioner can expect from all members of the staff team. We provide long and short stay care to the men and women who are the Chelsea Pensioners of the Royal Hospital and take great pride in our end of life care programme.

Director Facilities Management/Quartermaster

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

Property Maintenance and Management

Property Maintenance and Management has now been outsourced for a year and the RHC is receiving an excellent level of service with the following services all being introduced and successfully implemented: a help desk utilising both e-mail and telephone fault reporting, a detailed and live forward maintenance register of planned work, an in year works programme designed to bring added value to the RHC estate, projects being undertaken in house; additional works have been carried out to improve the living conditions of the In-Pensioners

Grounds

We are now in the second year of a five year forward maintenance programme that has started to see great benefit to the grounds and gardens of the RHC as well as cost savings and efficiencies. One major project undertaken in year was the provision of irrigation to areas of the grounds not previously covered by this facility. This has already delivered much improved grounds in terms of appearance and availability to staff and Pensioners. Liaison between the RHC and the Royal Horticultural Society has continued to strengthen, ensuring that both parties have many mutual benefits.

Catering

The Catering Department has throughout the last year seen major reorganisation with a more taut managerial structure introduced that has brought about many benefits for the IPs of the RHC. This reorganisation also saw a reduction in staffing numbers that brought about major savings in staff salary without any reduction in the level of service provided. The Catering Department has also been responsible for the provision of the cafe opened at the Margaret Thatcher Infirmary which has proved a huge success and good income generator.

Projects

The Margaret Thatcher Infirmary from a FM perspective continues to work well and during the last FY all snags have been completed and the final account agreed and the retention money on the contract released. The project to refurbish Long wards 23 and 24 has been highly successful being completed and occupied on time and to budget providing 34 en-suite rooms

A minor refurbishment project to refurbish Long Wards 1 and 2 at a cost of £0.5m has proved to be a major success and highly popular with the IPs accommodated in this facility.

Following on from the success of the work on Wards 1 & 2 all ablution and showers in the remaining Long Wards have been refurbished at a cost of some £0.5m. This work has seen a tremendous improvement in these facilities benefiting over 200 IPs.

Procurement

The appointment of a procurement manager for the RHC has proved to be highly beneficial especially in the FM area of responsibility. Governance across a whole spectrum of disciplines has been introduced and great efficiencies, in not only time but also costs have been, and continue to be identified to the good and benefit of RHC core business.

Miscellaneous

The stores area of the QM Department have been completely reorganised and a new position of stores manager created. This has brought about major streamlining in the procurement and issuing of stores and has seen the service offered to IPs and staff highly improved. In addition this area of the department has undertaken to provide IPs families who visit the Hospital overnight accommodation and this facility has proved to be a very good income generator.

Compliance

The reorganisation of the stores area of the Department has also allowed within current staffing level the creation of a compliance officer who under the Dir Fm has day to day responsibility for all compliance issues throughout the hospital including carbon reduction issues, environmental matters, H & S and Fire.

Service support

As with compliance the reorganisation of the stores area has also allowed within current staffing the introduction of a service support manager who oversees day to day activities on the site in respect of cleaning portering and accommodation issue,. Introducing this post has proved to be highly beneficial in terms of the day to day running of the core hospital activities.

Development Director

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

By the end of the first year, the new Development Director had consolidated the whole of the Hospital's fundraising activities represented by the Royal Hospital Chelsea Appeal Limited and its trading subsidiary Chelsea pensioner (RH) Limited. He was also managing the activities of the re-vitalised Friends organisation which now has over 2,000 members and has contributed since its launch in June 2008 nearly £240,000 to the Appeal.

In the current year, the Appeal has raised £4.6m which, together with the contribution of £811,000 from its trading subsidiary, has produced a total net contribution to the Royal Hospital of £4.4m. These monies have been used to bridge the gap between the Grant in Aid and the RHC's actual annual operating costs, and totally pay for the refurbishment of wards 23/24 which is the first of the new style long wards which were occupied by 34 Chelsea pensioners in May 2010.

The Development Department is currently assessing various new business opportunities and schemes to maximise profits from its current commercial activities.

Financial review and results for the year

Financial review

Grant in Aid

The Grant in Aid (GIA) funds the care of the In-pensioners, including food and utilities. During the course of the year the Ministry of Defence through Headquarters Land Forces increased the GIA by £1,100,000 in respect of utilities price increases in prior years, superannuation costs and costs relating to the occupation of the Margaret Thatcher Infirmary. The excess of expenditure over income on the revised GIA was £163,641. Due to the non-cash impact of re-living some assets this rose to a surplus of £210,072. The difference between the SOFA and the cash flow is analysed fully in the cash flow statement. Although the GIA balance sheet shows an excess of liabilities over assets, payments due from Grant in Aid will continue to be made owing to the continuing MoD funding.

Army Prize Money and Legacy Fund

The Army Prize Money and Legacy Fund had income of £1,998,970 and additionally funds were donated from RHC Appeal of £4,358,457. Of this £1,100,000 related to running costs to allow a higher level of property management expenditure than is funded from Grant in Aid, and £3,258,457 related to the conversion of the former temporary infirmary to Long Wards accommodation with en suite facilities and to the planning work on the major refurbishment of the Long Wards. Revenue expenditure charged to the APML was £9,575,764 of which £7,432,795 related to depreciation on Fixed Assets.

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

Pension liability

Although the employees of the Royal Hospital are members of the Principal Civil Service Pension Scheme, some former Governors, Lieutenant Governors and Captains of Invalids are members of an unfunded defined benefit scheme which is paid out of current income. The scheme has 15 retired members (or their widows), and has been closed to new entrants. The scheme is a final salary scheme with benefits based on number of years' service and final salary. Under FRS 17 there is a liability of £474,000 attributable to the Grant in Aid fund (see note 30).

Reserves policy

The Grant in Aid is not permitted to hold any reserves. As at 31 March 2010 the Army Prize Money and Legacy Fund had restricted funds of £91,966, being principally the RHC Chapel Deposit of £74,450. Royal Hospital Chelsea Appeal Limited holds both restricted and unrestricted reserves. These are earmarked to the Development Project, of which £542,981 is restricted. Chelsea Pensioner (RH) Limited holds no designated reserves.

Tangible fixed assets

The Hospital's operational land and buildings are stated at a professional valuation obtained in 2007-2008. In accordance with the Royal Institution of Chartered Surveyors guidance, the valuation basis is depreciated replacement cost. This basis is intended to measure the value to the Hospital of the assets in their present location, use and condition. The Margaret Thatcher Infirmary was added to the asset register in 2008-2009 at a valuation of £27,304,308 based on the construction costs of the building. At the end of the financial year the operational Land and buildings have a net book value of £566,766,224. There are assets under construction of £3,534,463 of which the Long Wards 23 and 24 Project is the major item. Investment assets have a value of £21,910,000 based on the 2007-2008 valuation. Other fixed assets have a net book value of £1,785,575.

Investment policy and objectives

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

The Commissioners' policy is to provide a defined level of income annually as well as capital growth in real terms over the longer period. The Commissioners believe that this investment policy remains appropriate. During the course of the year the remaining balance in the Capital Projects Fund was subsumed into the main APML investments.

Payments to suppliers

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

Plans for future periods

Development plans

The modernisation of Long Wards 23 and 24 was completed shortly after year end. Medium term plans concentrate on the modernisation of all the Long Ward accommodation, little changed since the days of Sir Christopher Wren, to incorporate en-suite facilities and to cater for female In-Pensioners.

Audit arrangements

The accounts of the Royal Hospital are audited by the Comptroller and Auditor General in accordance with the Letters Patent dated 23 November 2003 under Section 43 of the Charities Act 1993. An audit fee of £30,000 has been charged for the audit (£32,000 in 2008-2009) and is included in the Governance costs of the Hospital. The reduced fee reflects NAO's commitment to deliver a cost effective audit service; efficiencies gained from their understanding of Royal Hospital Operations; where possible placing assurance on internal control systems and working more closely with internal audit. No non-audit work was carried out on behalf of the Hospital in 2009-2010.

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

Personal data

The Government has made a commitment to enhance transparency with Parliament and the public about action to safeguard personal data. During 2009-2010 to date the Royal Hospital Chelsea was unaware of incidents resulting in the unauthorised disclosure of protected personal data.

Statement on Internal Control

Scope of responsibility

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

The purpose of the system of internal control.

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore provide only reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Royal Hospital's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively, and economically. The system of internal control has been in place in the Royal Hospital for the year ended 31 March 2010 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Capacity to handle risk

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

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

The risk control framework

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

Review of effectiveness

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

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

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

PWD Hatt
Secretary and Accounting Officer

8 July 2010

R Moore
Chairman of Audit Committee
On behalf of the Board of Commissioners
8 July 2010

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

I certify that I have audited the financial statements of Royal Hospital Chelsea and Group for the year ended 31 March 2010 under the Chelsea Hospital Act 1876. These comprise the Consolidated Statement of Financial Activities, the Consolidated Balance Sheet and the Royal Hospital Chelsea Balance Sheet, the Consolidated Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Commissioners, Secretary and Auditor

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

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Chelsea Hospital Act 1876 and the Statement of Recommended Practice 'Accounting and Reporting by Charities (revised 2005)' (SORP). I report to you whether, in my opinion, the information given in the Annual Report, which comprises Aims, Objectives and Activities, a Review of Achievements and Performance for the Year, a Financial Review and Future Plans, is consistent with the financial statements. I also report whether in all material respects the expenditure, income and resources have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

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

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

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This information comprises Aims, Objectives and Activities, a Review of Achievements and Performance for the Year, a Financial Review and Future Plans. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinions

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

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

Opinions

In my opinion

- the financial statements give a true and fair view, in accordance with the Chelsea Hospital Act 1876, of the state of the Royal Hospital Chelsea and Group's affairs as at 31 March 2010 and of its incoming resources and application of resources for the year then ended;
- the financial statements have been properly prepared in accordance with the Chelsea Hospital Act 1876 and the Statement of Recommended Practice 'Accounting and Reporting by Charities (revised 2005)' (SORP); and
- information included within the Annual Report, which comprises Aims, Objectives and Activities, a Review of Achievements and Performance for the Year, a Financial Review and Future Plans, is consistent with the financial statements.

Opinion on regularity

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

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General

16 July 2010

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

Statement of Financial Activities for the year ended 31 March 2010

	Notes	Grant in Aid Fund		Army Prize Money and Legacy Fund		Army Prize Money and Legacy Fund		Subsidiaries		Restricted Funds	Total Group Funds	Prior Year Total Group Funds
		Unrestricted Funds	£	Unrestricted Funds	£	Unrestricted Funds	£	Unrestricted Funds	£			
Incoming resources			£		£		£		£		2010	2009
Incoming resources from generated funds												
Voluntary income	2	0	584,784	100,000	1,284,799	3,302,000	5,271,583	5,246,853				
Activities for generating funds	3	0	38,551	0	1,761,277	0	1,799,828	1,888,157				
Investment income	4	441	1,292,384	0	24,496	0	1,317,321	1,381,927				
Charitable activities	5	10,824,000	0	0	0	0	10,824,000	10,487,000				
Other incoming resources	6	527,020	83,251	0	0	0	610,271	564,932				
Total incoming resources		11,351,461	1,998,970	100,000	3,070,572	3,302,000	19,823,003	19,568,869				
Resources expended												
Costs of generating funds												
Costs of generating voluntary income	7	0	115,780	0	1,200,083	606	1,316,469	1,820,847				
Fundraising trading: cost of goods sold and other costs	8	0	40,854	0	0	0	40,854	32,454				
Investment management costs		0	57,076	0	0	0	57,076	45,858				
Charitable activities:												
Infirmity nursing and medical	9	2,657,018	25,178	0	0	0	2,682,196	2,698,127				
Welfare and ceremonial	10	936,059	103,963	85,079	0	0	1,125,101	1,250,916				
Facilities management	11	6,288,606	1,373,299	0	0	0	7,661,905	5,839,761				
Projects	14	0	131,024	0	0	0	131,024	1,328,181				
Administrative support and central costs	12	1,500,577	220,007	0	0	0	1,720,584	1,604,186				
Other resources expended: depreciation	19	86,969	7,432,795	0	6,266	0	7,526,030	7,310,976				
Provisions	27	0	17,459	0	0	0	17,459	69,726				
Governance costs	15	45,873	58,329	0	30,420	0	134,622	185,120				
Total resources expended		11,515,102	9,575,764	85,079	1,236,769	606	22,413,320	22,186,152				

Net incoming/outgoing resources before transfers	(163,641)	(7,576,794)	14,921	1,833,803	3,301,394	(2,590,317)	(2,617,283)
Transfers							
Gross transfers	18	0	4,392,311	(33,854)	(1,100,000)	(3,258,457)	0
Net incoming/outgoing resources before other recognised gains and losses		(163,641)	(3,184,483)	(18,933)	733,803	42,937	(2,617,283)
Other recognised gains/losses							
Realised profit/loss on investments		0	(62,276)	0	0	0	(62,276)
Realised loss on disposal of fixed assets		(16,170)	(240)	0	0	0	(16,410)
Unrealised gains/losses on investment assets	20	0	2,485,897	0	0	0	2,485,897
Prior years AUC reclassified as expense		0	0	0	0	0	(392,962)
Re-lifed Assets		458,883	46,901	0	0	0	505,784
Actuarial gains/losses on defined benefit pension schemes	30	(69,000)	0	0	0	0	(69,000)
Net movement in funds		210,072	(714,201)	(18,933)	733,803	42,937	(5,086,666)
Reconciliation of funds							
Total funds brought forward		(654,247)	607,525,606	110,899	34,631	500,650	607,517,540
Total funds carried forward		(444,175)	606,811,405	91,966	768,434	543,587	607,771,217

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

The notes on pages 24 to 46 form an integral part of these financial statements.

Consolidated Balance Sheet as at 31 March 2010

	Notes	Total Group Funds 2010		2009
		£	£	£
Fixed assets				
Tangible assets				
Heritage	19	538,958,157		545,672,934
Non-heritage	19	33,128,105		30,148,860
Listed investments	20	11,165,895		7,032,409
Investment property	21	21,910,000		21,910,000
		605,162,157		604,764,203
Current assets				
Stocks	22	113,345		32,751
Debtors	23	221,943		368,768
Cash at bank and in hand	24	5,393,077		4,928,268
Current Asset Investments		0		0
		5,728,365		5,329,787
Creditors: amounts falling due within one year	25	(2,297,018)		(1,728,672)
Net current assets		3,431,347		3,601,115
Total assets less current liabilities		608,593,504		608,365,318
Creditors: amounts falling due over one year	26	(314,861)		(350,542)
Provisions for liabilities and charges	27		0	(74,236)
Under one year		(18,403)		
More than one year		(15,023)		
			(33,426)	0
Pensions liability	30		(474,000)	(423,000)
Total Assets less Liabilities			607,771,217	607,517,540
Reserves				
Grant in aid fund			(444,175)	(654,247)
GIA revaluation reserve			0	0
Army Prize Money and Legacy Fund: hospital funds				
Restricted funds		91,966		110,899
Unrestricted funds		262,133,836		262,848,037
Revaluation reserve		344,677,569		344,677,569
Funds retained in Royal Hospital Chelsea Appeal Ltd				
Unrestricted		723,152		7,784
Restricted		543,587		500,650
Profit and Loss CPRH Ltd.		45,282		26,847
Consolidated Army Prize Money and Legacy Fund			608,215,392	608,171,787
Total reserves			607,771,217	607,517,540

The notes on pages 24 to 46 form an integral part of these financial statements.

Royal Hospital Chelsea Balance Sheet as at 31 March 2010

	Notes	Grant in Aid Fund £	Army Prize Money and Legacy Fund £	Total Hospital Funds 2010 £	Total Funds 2009 £
Fixed assets					
Tangible assets	19				
Heritage		0	538,958,157	538,958,157	545,672,934
Non-heritage		586,337	32,487,613	33,073,950	30,110,724
Listed investments	20	0	11,165,895	11,165,895	7,032,409
Investment property	21	0	21,910,000	21,910,000	21,910,000
		<u>586,337</u>	<u>604,521,665</u>	<u>605,108,002</u>	<u>604,726,067</u>
Current assets					
Stocks	22	0	0	0	0
Debtors	23	98,865	25,114	123,979	2,026,079
Cash at bank and in hand	24	7,679	3,268,330	3,276,009	3,123,116
Current asset investments					
		<u>106,544</u>	<u>3,293,444</u>	<u>3,399,988</u>	<u>5,149,195</u>
Creditors: amounts falling due within one year	25	<u>(627,324)</u>	<u>(922,721)</u>	<u>(1,550,045)</u>	<u>(2,045,226)</u>
Net current assets		<u>(520,780)</u>	<u>2,370,723</u>	<u>1,849,943</u>	<u>3,103,969</u>
Inter company balances		3,008	320,530	323,538	3,030,869
Total assets less current liabilities		<u>68,565</u>	<u>607,212,918</u>	<u>607,281,483</u>	<u>607,830,036</u>
Long term creditors	26	<u>(38,740)</u>	<u>(276,121)</u>	<u>(314,861)</u>	<u>(350,542)</u>
Provisions for liabilities and charges	27				
Due under one year		0	(18,403)	(18,403)	(58,055)
Due over one year		0	(15,023)	(15,023)	(16,181)
Net assets excluding pension liability		<u>29,825</u>	<u>606,903,371</u>	<u>606,933,196</u>	<u>607,405,258</u>
Pension liability	30	<u>(474,000)</u>	<u>0</u>	<u>(474,000)</u>	<u>(423,000)</u>
Net assets including pension liability		<u>(444,175)</u>	<u>606,903,371</u>	<u>606,459,196</u>	<u>606,982,258</u>
Reserves					
Restricted funds		0	91,966	91,966	110,899
Unrestricted income funds					
Grant in aid fund		(444,175)	0	(444,175)	(654,247)
Army prize and legacy fund		0	262,133,836	262,133,836	262,848,037
Revaluation Reserve		0	344,677,569	344,677,569	344,677,569
Total funds		<u>(444,175)</u>	<u>606,903,371</u>	<u>606,459,196</u>	<u>606,982,258</u>

The notes on pages 24 to 46 form an integral part of these financial statements.

Cash Flow Statement year ending 31 March 2010

	Grant in Aid Fund £	Army Prize Money and Legacy Fund £	Total Group Funds £
Net cashflow from operating activities	6,246	4,152,045	4,158,291
Returns on investment			
Interest received	441	49,363	49,804
Dividends received	0	353,315	353,315
Rent received from investment properties	0	914,202	914,202
	<u>441</u>	<u>1,316,880</u>	<u>1,317,321</u>
Capital expenditure and capital investment			
Payments to acquire listed investments	0	(4,422,254)	(4,422,254)
Proceeds from listed investments sold	0	2,443,556	2,443,556
Proceeds from sale of fixed assets	0		
Payments to acquire tangible fixed assets	0	(3,300,938)	(3,300,938)
	<u>0</u>	<u>(5,279,636)</u>	<u>(5,279,636)</u>
Management of liquid resources			
Capital projects fund	0	268,833	268,833
Increase/(decrease) in cash	<u>6,687</u>	<u>458,122</u>	<u>464,809</u>
Net incoming/(outgoing) resources before transfers	(163,641)	(2,426,676)	(2,590,317)
Interest receivable	(441)	(49,363)	(49,804)
Income from listed investments	0	(353,315)	(353,315)
Income from investment properties	0	(914,202)	(914,202)
Depreciation	86,969	7,439,061	7,526,030
(Increase)/decrease in stocks	0	(80,594)	(80,594)
(Increase)/decrease in debtors	18,898	127,927	146,825
Increase/(decrease) in creditors	131,985	400,492	532,477
Movement in provisions	(49,524)	8,715	(40,809)
Difference between FRS17 charge and pension payments	(18,000)	0	(18,000)
Net cashflow from operating activities	<u>6,246</u>	<u>4,152,045</u>	<u>4,158,291</u>

The notes on pages 24 to 46 form an integral part of these financial statements.

Notes to the Financial Statements for the year ended 31 March 2010

1 Accounting policies

1.1 Basis of accounting

The financial statements have been prepared in accordance with applicable accounting standards, under the historical cost convention and comply with the Companies Act 1985. The financial statements have been prepared in accordance with *Accounting by Charities: Statement of Recommended Practice (revised 2005)* ('the Charities SORP') issued in March 2005 and applicable United Kingdom Accounting Standards. RHC have conducted a review of their accounting policies to ensure that they comply with the SORP except for not apportioning support costs to Charitable Objectives and not including expenditure relating to statutory responsibilities within Governance Costs.

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

1.2 Recognition of incoming resources

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

1.3 Outgoing resources

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

1.4 Fund analysis

The primary statements and the notes to the accounts are analysed between the two main funds of the Hospital, the Grant in Aid Fund and the Army Prize Money and Legacy Fund, which subsumes the Drouly, Ingram, Ranelagh and De la Fontaine Legacies. In the consolidated statements, the transactions and balances of the subsidiaries are included in the Army Prize Money and Legacy Fund. Restricted funds are analysed in the notes to the accounts.

1.5 Tangible fixed assets

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

Freehold buildings	over the remaining useful life as estimated by the valuer, or for 50 years in respect of a permanent new building before its first valuation
Fixtures and fittings	5 – 10 years straight line
Plant and machinery	10 – 25 years straight line
Motor vehicles	10 – 15 years straight line

Office Equipment	7 – 10 years straight line
Computers	3 years straight line

Assets are reviewed for the likelihood of material impairments annually.

1.6 Heritage assets

New heritage assets are capitalised at cost upon acquisition. Heritage assets which are part of the operational estate have been capitalised in accordance with the Charities SORP Para 281. Other existing heritage assets have not been capitalised in accordance with the Charities SORP Para 283.

1.7 Investment properties

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

1.8 Capitalisation thresholds

The lower limit for capitalisation of land and buildings is £10,000. This threshold also applies to land and buildings which are heritage assets. For all other fixed assets it is £5,000.

1.9 Listed investments

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

1.10 Pensions

The nature of the Hospital's pension schemes are set out in Note 30. The pension costs charged to the SOFA represent the contributions payable to the Schemes on behalf of members of staff.

1.11 Taxation

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

2 Voluntary Income

	Army Prize Money and Legacy Fund		RHC Appeal Ltd – Consolidated Accounts		Total Group Funds	Prior Year Total Group
	Unrestricted Funds	Restricted Funds	Unrestricted Funds	Restricted Funds	2010	2009
	£	£	£	£	£	£
Donations and legacies	<u>584,784</u>	<u>100,000</u>	<u>1,284,799</u>	<u>3,302,000</u>	<u>5,271,583</u>	<u>5,246,853</u>

Donations and legacies include £451,682 (£37,525 in 2008-2009) received from the EH Dashwood Estate. The Hospital is entitled to 25 per cent of the net estate, which consists of property and equity investments. The trustees of the estate make periodic distributions to the beneficiaries from the net income of the estate's investments and the proceeds of investment sales. The Hospital is not provided with full information on the market value of its interest in the estate, and therefore accounts for this legacy on the basis of distributions received. The total income from all legacies this period was £701,793 (£247,490 in 2008-2009).

3 Activities for generating funds

	Army Prize Money and Legacy Fund		RHC Appeal Ltd – Consolidated Accounts		Total Group Funds	Prior Year Total Group
	Unrestricted Funds	Restricted Funds	Unrestricted Funds	Restricted Funds	Restricted Funds	2009
	£	£	£	£	£	£
Prince of Wales Hall	38,551	0	0	0	38,551	29,997
RHC Appeal Ltd	0	0	1,761,277	0	1,761,277	1,858,160
Total	38,551	0	1,761,277	0	1,799,828	1,888,157

The income within the RHC Appeal Consolidated Accounts is the trading income received by its subsidiary, CP(RH) Ltd. This was not shown against this line last year and the prior year balance has been adjusted. The decline since last year represents a fall in corporate bookings for Royal Hospital Chelsea facilities as a result of the recession.

The Prince of Wales Hall is primarily a welfare facility. In 2009-2010 the cost of sales exceeded turnover and it made a net deficit of £2,303. The turnover has significantly increased since last year reflecting the increasing use of this facility.

4 Investment Income

	GIA	Army Prize Money and Legacy Fund		RHC Appeal Ltd – Consolidated Accounts		Total Group Funds	Prior Year Total Group
	Unrestricted Funds	Unrestricted Funds	Restricted Funds	Unrestricted Funds	Restricted Funds	Restricted Funds	2009
	£	£	£	£	£	£	£
Dividends for year	0	353,315	0	0	0	353,315	364,940
Income from property	0	914,202	0	0	0	914,202	734,957
Bank interest received	441	24,867	0	24,496	0	49,804	282,030
Total	441	1,292,384	0	24,496	0	1,317,321	1,381,927

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

Under the Leasehold Reform Housing and Urban Development Act 1993, tenants were given the right to extend their leases by ninety years. The Act specifies that a premium is payable for the granting of such extensions and gives details of how this is to be calculated. The amount of £914,202 shown as income from investment properties includes £734,140 paid to the Hospital in respect of such premiums (£499,961 in 2008-2009). Bank interest is lower than in previous years due to the fall in interest rates. In previous years bank interest was shown under other incoming resources and did not include the interest paid to the subsidiaries. The prior year balance has been restated in respect of this.

The smaller reduction in dividend income also reflects current economic conditions.

5 Charitable activities

	Grant in Aid		RHC Appeal Ltd – Consolidated Accounts		Total Group Funds	Prior Year Total Group
	Unrestricted Funds	Unrestricted Funds	Restricted Funds	Restricted Funds	Restricted Funds	2009
	£	£	£	£	£	£
Grant in Aid	10,824,000	0	0	10,824,000		10,487,000
Total	10,824,000	0	0	10,824,000		10,487,000

There are no specific conditions on the Grant in Aid other than that it should be spent on revenue expenditure in accordance with the Crown Letters Patent and the Funding Agreement made with the Ministry of Defence. Additional Grant in Aid funding was given to cover shortfalls arising from increases in utilities prices over a number of years that were higher than the inflation factor applied to the Grant in Aid. It also covered some additional costs arising from the opening of the Margaret Thatcher Infirmary.

6 Other incoming resources

	Grant in Aid		Army Prize Money and Legacy Fund		Total Group Funds	Prior Year Total Group
	Unrestricted Funds	Unrestricted Funds	Restricted Funds	Restricted Funds	Restricted Funds	2009
	£	£	£	£	£	£
Staff accommodation charges	226,332	0	0	226,332		223,398
Family practice	27,509	0	0	27,509		18,816
Food recoveries	88,405	0	0	88,405		69,278
Events recoveries	0	17,604	0	17,604		6,798
Pension contributions	115,006	0	0	115,006		118,606
Other income	69,768	65,647	0	135,415		128,036
Total	527,020	83,251	0	610,271		564,932

Pension contributions represent income from the NHS in respect of increased employer's pension contributions for staff in the National Health Service Superannuation Scheme. In prior years this note included intercompany transactions within the Group and the prior-year balance has been restated by removing these. In prior years the income from RHC Appeal Ltd was all shown under other incoming resources. This has now been split into its component parts of Voluntary Income, Activities for Generating Funds and Investment Income and the prior year balance adjusted.

7 Costs of generating voluntary income

	Army Prize Money and Legacy Fund		RHC Appeal Ltd – Consolidated Accounts		Total Group Funds	Prior Year Total Group
	Grant in Aid Unrestricted Funds	Unrestricted Funds	Unrestricted Funds	Restricted Funds	2010	2009
	£	£	£	£	£	£
Staff costs	0	73,760	0	0	73,760	288,819
Support and training	0	162	0	0	162	1,569
Other costs	0	41,858	1,206,349	606	1,248,813	1,547,299
Total	0	115,780	1,206,349	606	1,322,735	1,837,687

These costs were incurred within the Development Directorate. The subsidiaries costs in this table include depreciation of £6,266, which is shown as a separate line in the SOFA. In prior years intercompany transactions within the Group were shown in this table. The prior year figure has been restated by removing these transactions. In prior years the RHC Appeal costs included Governance Costs. These are now shown separately and the prior year comparator has been adjusted in respect of this. Similarly Grant in Aid staff costs which are entirely recovered from RHC Appeal Ltd and CP(RH) Ltd are excluded from this table and the prior year balance has been restated in respect of this. Staff costs within the RHC Appeal Ltd consolidated accounts are not shown separately.

8 Fundraising trading: costs of goods sold and other costs

The Hospital has one subsidiary company.

Royal Hospital Chelsea Appeal Limited

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

This company wholly owns its trading subsidiary, Chelsea Pensioner (RH) Ltd

Chelsea Pensioner (RH) Limited

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

In total the limited companies donated £4,358,457 to the Army Prize Money and Legacy Fund in 2009-2010. This donation is eliminated on consolidation of the Group accounts.

A summary of the RHC Appeal accounts is below

	2010	2009
	£	£
Income	6,372,572	6,800,949
Expenditure	(5,595,832)	(8,586,766)
Net movement of funds	776,740	(1,785,817)
Fixed assets	54,155	38,136
Stock	113,345	32,751
Debtors	97,964	1,373,558
Cash	2,117,068	1,805,152
Investments		
Creditors: less than 1 year	(1,070,511)	(2,714,316)
Net assets and funds carried forward	1,312,021	535,281
Funds in limited companies as at 31 March 2010	1,312,021	535,281
Reserves		
Restricted funds	543,587	500,650
Unrestricted	768,434	34,631
	<u>1,312,021</u>	<u>535,281</u>

Expenditure includes donations from RHC Appeal Ltd to the Royal Hospital. On consolidation to the Group accounts expenditure is reduced by £4,358,457 in respect of intercompany donations and creditors is reduced by £323,528 in respect of sums due to the Royal Hospital.

The Prince of Wales Hall

The Prince of Wales Hall is a welfare facility, but it does trade in light refreshments with the aim of breaking even. In some years it has produced a small profit. This year it produced a small deficit.

	Restricted Funds	2010
	£	£
Turnover	38,551	29,997
Cost of sales	(40,792)	(32,454)
Gross profit	(2,241)	(2,457)
Other costs	(62)	0
Net profit/(loss)	<u>(2,303)</u>	<u>(2,457)</u>

9 Care services

	Army Prize Money and Legacy Fund			Total Group Funds	Prior Year Total Group
	Grant in Aid	Unrestricted Funds	Restricted Funds		
	Unrestricted Funds	Unrestricted Funds	Restricted Funds	2010	2009
	£	£	£	£	£
Staff costs	2,528,610	0	0	2,528,610	2,586,616
Staff support and training	39,526	25,000	0	64,526	22,225
Direct expenses	39,527	(931)	0	38,596	57,639
Office overheads	22,736	106	0	22,842	17,319
Travel and i/p entertainment	10,059	1,003	0	11,062	9,435
Professional fees	16,560	0	0	16,560	4,893
Total	<u>2,657,018</u>	<u>25,178</u>	<u>0</u>	<u>2,682,196</u>	<u>2,698,127</u>

The above costs were incurred in the care of in-pensioners in the infirmary, and in providing outpatient care.

10 Welfare and ceremonial costs

	Army Prize Money and Legacy Fund			Total Group Funds	Prior Year Total Group
	Grant in Aid	Unrestricted Funds	Restricted Funds		
	Unrestricted Funds	Unrestricted Funds	Restricted Funds	2010	2009
	£	£	£	£	£
Staff costs	775,223	0	0	775,223	894,578
Staff support and training	87,194	0	0	87,194	96,044
Direct expenses	2,866	99,998	5,157	108,021	113,280
Office overheads	8,983	135	0	9,118	18,303
Travel	23,950	3,830	79,922	107,702	95,197
Publicity	37,843	0	0	37,843	33,514
Total	<u>936,059</u>	<u>103,963</u>	<u>85,079</u>	<u>1,125,101</u>	<u>1,250,916</u>

The above costs, which are specifically related to in-pensioner welfare, were incurred in the Adjutant's department.

11 Facilities management costs

	Grant in Aid			Army Prize Money and Legacy Fund	Total Group Funds	Prior Year Total Group
	Unrestricted Funds	Unrestricted Funds	Restricted Funds		2010	2009
	£	£	£		£	£
Staff costs	2,754,843	0	0		2,754,843	2,701,070
Staff support and training	11,966	0	0		11,966	21,871
Direct expenses	1,693,797	252,597	0		1,946,394	1,849,963
Office overheads	36,428	0	0		36,428	7,628
Travel	2,221	1,409	0		3,630	5,321
Professional Fees	9,981	0	0		9,981	29,884
Works maintenance	1,779,370	1,119,293	0		2,898,663	1,224,024
Total	6,288,606	1,373,299	0		7,661,905	5,839,761

This department provides all support services for the Royal Hospital Chelsea ranging from catering to property management. In last year's accounts this table contained some intra-group transactions and the prior year column has been adjusted to exclude them.

12 Administrative support and central costs

	Grant in Aid			Army Prize Money and Legacy Fund	Total Group Funds	Prior Year Total Group
	Unrestricted Funds	Unrestricted Funds	Restricted Funds		2010	2009
	£	£	£		£	£
Staff costs	780,133	99,439	0		879,572	867,084
Staff support and training	104,154	375	0		104,529	66,097
Direct expenses	546,326	108,323	0		654,649	554,740
Office overheads	42,062	1,138	0		43,200	67,493
Travel	1,877	9,729	0		11,606	13,858
Publicity	0	918	0		918	1,510
Bank charges	25	85	0		110	265
Pension finance costs	26,000	0	0		26,000	32,000
Works maintenance	0	0	0		0	1,139
Total	1,500,577	220,007	0		1,720,584	1,604,186

The above costs include centrally controlled costs and the Headquarters costs of the Royal Hospital. Direct expenses are higher than last year through a number of factors. These are principally compensation payments in respect of redundancies and an additional payment to HMRC.

13 Development Director

The costs of the Development Director equate to the costs of generating voluntary income, which are covered in Note 7 above.

14 Projects office

	Army Prize Money and Legacy Fund			Total Group Funds	Prior Year Total Group
	Grant in Aid	Unrestricted Funds	Restricted Funds		
	Unrestricted Funds	Unrestricted Funds	Restricted Funds	2010	2009
	£	£	£	£	£
Staff costs	0	0	0	0	52,415
Staff support and training	0	0	0	0	291
Direct expenses	0	85,048	0	85,048	1,255,893
Office overheads	0	0	0	0	43
Travel	0	0	0	0	11,069
Professional charges	0	4,037	0	4,037	4,157
Works maintenance	0	41,939	0	41,939	4,313
Total	0	131,024	0	131,024	1,328,181

During the course of 2008-2009 the Projects Office ceased to exist as a discrete entity, and was absorbed into the Directorate of Facilities Management. However, some costs principally relating to Furniture, Fittings and Equipment for the Margaret Thatcher Infirmary were charged to this cost centre in 2009-2010.

15 Governance costs

	Army Prize Money and Legacy Fund			Total Group Funds	Prior Year Total Group
	Grant in Aid	Unrestricted Funds	Subsidiaries		
	Unrestricted Funds	Unrestricted Funds	Restricted Funds	2010	2009
	£	£	£	£	£
Audit fees	28,006	41,421	0	69,427	62,051
Surveyors' fees	0	2,349	0	2,349	10,150
Consultancy fees	14,829	4,370	0	19,199	26,288
Legal fees	3,038	10,189	0	13,227	61,826
Limited company subsidiaries	0	0	30,420	30,420	24,805
Total	45,873	58,329	30,420	134,622	185,120

The actual fee charged by the National Audit Office for the audit of the Hospital's consolidated financial statements was £30,000 (£32,000 in 2008-2009). RHC Appeal Ltd was not shown in this table last year and the prior year balance has been adjusted accordingly.

16 Staff costs and numbers; Commissioners' emoluments

Staff costs within the Royal hospital are as follows

	Grant in Aid Fund	Army Prize Money and Legacy Fund	Total Funds 2010	Total Funds 2009
	£	£	£	£
Salaries and wages	5,114,141	146,351	5,260,492	6,210,200
Social security costs	371,142	3,618	374,760	490,001
Pension costs	766,940	9,038	775,978	987,270
Sub-total	6,252,223	159,007	6,411,230	7,687,471
Casual and agency pay	586,586	14,192	600,778	351,193
In-Pensioner pay	85,873	0	85,873	78,705
Total	6,924,682	173,199	7,097,881	8,117,369

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

	Grant in Aid Fund	Army Prize Money and Legacy Fund	Total Funds 2010	Total Funds 2009
	£	£	£	£
Care services	2,528,610	0	2,528,610	2,586,616
Welfare and ceremonial costs	861,096	0	861,096	973,283
Facilities management	2,754,843	0	2,754,843	2,750,328
Management and administration	780,133	99,439	879,572	867,084
Projects	0	0	0	52,415
Development directorate	0	73,760	73,760	887,643
Total	6,924,682	173,199	7,097,881	8,117,369

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

The average monthly number of staff by department was as follows

	Part time	Full time	2010	2009
Care services	3	73	76	82
Welfare and ceremonial	1	23	24	29
Facilities management	6	98	104	100
Management and administration	3	15	18	18
Development directorate	1	12	13	16
Projects	0	0	0	1
Total	14	221	235	246

Higher paid employees

Including the Governor and Lieutenant Governor, the number of employees whose remuneration was over £60,000 in 2009-2010 (excluding pension contributions) was as follows:

	2010	2009
	Number	Number
£60,000 to £69,999	3	3
£70,000 to £79,999	1	1
	4	4

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

Commissioners' emoluments

None of the Commissioners receive any remuneration for acting as Commissioners. Travel expenses of £960 were claimed during the year by two Commissioners. The Governor and Lieutenant Governor are Commissioners, and receive salaries in return for their work as executives of the Royal Hospital Chelsea. The Governor and Lieutenant Governor are employed on the basis of a five year tour subject to current employment legislation. Former Governors and Lieutenant Governors receive pensions from an unfunded defined benefit scheme: these costs are included in note 30 – Unfunded Scheme. This scheme is closed to new members.

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

	Age at the year end	Salary £000	Real increase in pension at 60 during the year £000	Total accrued pension at 60 at the year end £000	Cash equivalent transfer value at start date £000	Cash equivalent transfer value at end date £000	Real increase in cash equivalent transfer value £000
General The Lord Walker Governor and the highest paid Commissioner	65	75–80	0–2.5	2.5–5	60	85	22
Major General APN Currie Lieutenant Governor and Chief Executive	61	65–70	0–2.5	5–7.5	74	103	27

The current pension scheme is the Principal Civil Service Pension Scheme. Next year details of the emoluments of the Secretary will be included in this table, as pension contributions have recently commenced in respect of him.

17 Unrealised gains/(losses)

Unrealised gains are disclosed in Note 20 this year.

18 Transfers between funds

No transfers took place between the Grant in Aid Fund and the Army Prize Money and Legacy Fund in 2009-2010. Restricted funds from a legacy were spent on chapel plate in accordance with the terms of the legacy. As the chapel plate is not a restricted asset a transfer of £33,854 has been shown between APML Restricted and APML Unrestricted funds. In the consolidated SOFA donations from RHC Appeal Ltd have been shown as transfer to APML to avoid treating the donation as both income and expenditure within the consolidated accounts.

19 Tangible fixed assets

The main development with regard to the book value of fixed assets has been an increase in Assets Under Construction brought about through the project to convert the former temporary infirmary to Long Wards Accommodation with en suite facilities.

Investigations showed that some assets that had been fully depreciated on the asset register still were in use in some cases with many years of life. The total cost and depreciation shown against these assets was £732,251. Their life has been extended based on information supplied by the managers responsible for the asset. The new value is based on what the carrying value of the asset would have been if it had been given the full expected life when entered in the register. In total the new value of these assets before in-year depreciation was £505,783. This leaves a net adjustment against cost of £226,468 and an adjustment against depreciation of £732,251 as shown in the tables below. The adjustment took place as at 1 April 2009, and the assets have been depreciated at the new value for eleven months in line with the Royal Hospital's policy of not charging depreciation in the month of acquisition.

The disposal of two vehicles resulted in a small realised loss.

Tangible fixed assets – heritage and non heritage

	Assets in Course of Construction	Land and buildings Dwelling	Land and Buildings Non-Dwelling	Plant, Machinery and Equipment	Vehicles	Exhibits	Total
	£	£	£	£	£	£	£
Cost or valuation							
At 1 April 2009	364,463	449,423,660	138,997,575	2,686,689	187,423	78,805	591,738,615
Additions at cost	3,170,000	0	22,285	20,950	15,443	72,260	3,300,938
Re-lifed assets	0	0	0	(226,468)	0	0	(226,468)
Reclassifications	0	(980,247)	889,572	0	0	0	(90,675)
Disposals	0	0	0	(66,981)	(37,800)	0	(104,781)
At 31 March 2010	<u>3,534,463</u>	<u>448,443,413</u>	<u>139,909,432</u>	<u>2,414,190</u>	<u>165,066</u>	<u>151,065</u>	<u>594,617,629</u>
Depreciation							
At 1 April 2009	0	8,984,586	5,399,379	1,445,964	86,892	0	15,916,821
Charge for year	0	4,960,664	2,332,670	222,135	10,616	0	7,526,085
Re-lifed assets	0	0	0	(732,251)	0	0	(732,251)
Reclassifications	0	(19,152)	(71,526)	0	0	0	(90,678)
Disposals in year	0	0	0	(66,980)	(21,630)	0	(88,610)
At 31 March 2010	<u>0</u>	<u>13,926,098</u>	<u>7,660,523</u>	<u>868,868</u>	<u>75,878</u>	<u>0</u>	<u>22,531,367</u>
Net book value							
At 1 April 2009	<u>364,463</u>	<u>440,439,074</u>	<u>133,598,196</u>	<u>1,240,725</u>	<u>100,531</u>	<u>78,805</u>	<u>575,821,794</u>
At 31 March 2010	<u>3,534,463</u>	<u>434,517,315</u>	<u>132,248,909</u>	<u>1,545,322</u>	<u>89,188</u>	<u>151,065</u>	<u>572,086,262</u>

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

Grant in Aid Fund	0	0	0	541,095	45,242	0	586,337
Army Prize Money and Legacy Fund	3,534,463	434,517,315	132,226,624	972,357	43,946	151,065	571,445,770
Subsidiaries	0	0	22,285	31,870	0	0	54,155
	<u>3,534,463</u>	<u>434,517,315</u>	<u>132,248,909</u>	<u>1,545,322</u>	<u>89,188</u>	<u>151,065</u>	<u>572,086,262</u>

Tangible fixed assets – heritage

	Assets in Course of Construction	Land and buildings Dwelling	Land and Buildings Non-Dwelling	Plant, Machinery and Equipment	Vehicles	Exhibits	Total
	£	£	£	£	£	£	£
Cost or valuation							
At 1 April 2009	0	421,733,703	137,384,159	0	0	0	559,117,862
Additions at cost	0	0	0	0	0	0	0
Re-lifed assets	0	0	0	0	0	0	0
Reclassifications	0	(980,823)	980,823	0	0	0	0
Disposals	0	0	0	0	0	0	0
At 31 March 2010	0	420,752,880	138,364,982	0	0	0	559,117,862
	0	0	0	0	0	0	
Depreciation							
At 1 April 2009	0	8,817,167	4,627,761	0	0	0	13,444,928
Charge for year	0	4,399,129	2,315,891	0	0	0	6,715,020
Re-lifed assets	0	0	0	0	0	0	0
Reclassifications	0	(19,152)	18,909	0	0	0	(243)
Disposals in year	0	0	0	0	0	0	0
At 31 March 2010	0	13,197,144	6,962,561	0	0	0	20,159,705
Net book value							
At 1 April 2009	0	412,916,536	132,756,398	0	0	0	545,672,934
At 31 March 2010	0	407,555,736	131,402,421	0	0	0	538,958,157

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

Grant in Aid Fund	0	0	0	0	0	0	0
Army Prize Money and Legacy Fund		407,555,736	131,402,421	0	0	0	538,958,157
Subsidiaries	0	0	0	0	0	0	0
	0	407,555,736	131,402,421	0	0	0	538,958,157

Tangible fixed assets – non-heritage

	Assets in Course of Construction	Land and buildings Dwelling	Land and Buildings Non- Dwelling	Plant, Machinery and Equipment	Vehicles	Exhibits	Total
	£	£	£	£	£	£	£
Cost or valuation							
At 1 April 2009	364,463	27,689,957	1,613,416	2,686,689	187,423	78,805	32,620,753
Additions at cost	3,170,000	0	22,285	20,950	15,443	72,260	3,300,938
Re-lifed assets		0	0	(226,468)	0	0	(226,468)
Reclassifications	0	576	(91,251)	0	0	0	(90,675)
Disposals	0	0	0	(66,981)	(37,800)	0	(104,781)
At 31 March 2010	<u>3,534,463</u>	<u>27,690,533</u>	<u>1,544,450</u>	<u>2,414,190</u>	<u>165,066</u>	<u>151,065</u>	<u>35,499,767</u>
Depreciation							
At 1 April 2009	0	167,419	771,618	1,445,964	86,892	0	2,471,893
Charge for year	0	561,535	16,779	222,135	10,616	0	811,065
Re-lifed assets	0	0	0	(732,251)	0	0	(732,251)
Reclassifications	0	0	(90,435)	0	0	0	(90,435)
Disposals in year	0	0	0	(66,980)	(21,630)	0	(88,610)
At 31 March 2010	<u>0</u>	<u>728,954</u>	<u>697,962</u>	<u>868,868</u>	<u>75,878</u>	<u>0</u>	<u>2,371,662</u>
Net book value							
At 1 April 2009	<u>364,463</u>	<u>27,522,538</u>	<u>841,798</u>	<u>1,240,725</u>	<u>100,531</u>	<u>78,805</u>	<u>30,148,860</u>
At 31 March 2010	<u>3,534,463</u>	<u>26,961,579</u>	<u>846,488</u>	<u>1,545,322</u>	<u>89,188</u>	<u>151,065</u>	<u>33,128,105</u>

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

Grant in Aid Fund	0	0	0	541,095	45,242	0	586,337
Army Prize Money and Legacy Fund	3,534,463	26,961,579	824,203	972,357	43,946	151,065	32,487,613
Subsidiaries	0	0	22,285	31,870	0	0	54,155
	<u>3,534,463</u>	<u>26,961,579</u>	<u>846,488</u>	<u>1,545,322</u>	<u>89,188</u>	<u>151,065</u>	<u>33,128,105</u>

20 Listed investments

	2010	2009
	£	£
Market value at 1 April 2009	7,032,409	11,263,463
Additions at cost	4,422,254	3,592,376
Cost of investments sold	(2,505,832)	(4,586,137)
Unrealised revaluation gain/(loss)	2,485,897	(1,345,279)
Withdrawals from Capital Projects Fund	(268,315)	(2,005,000)
Fees on Capital Projects Fund	(518)	112,986
Market value at 1 April 2010	<u>11,165,895</u>	<u>7,032,409</u>
Historical cost at 1 April 2009	<u>8,160,195</u>	<u>11,045,970</u>
Historical cost as at 1 April 2010	<u>9,807,782</u>	<u>8,160,195</u>

The increase in the value of the investments reflects the recovery of the markets from the low that was reflected in last year's financial accounts and the active management of those investments.

At the beginning of the financial year there was a residual balance in the Capital Projects Fund of £268,833. This fund was set up to cover any cash shortfalls that may have arisen during the construction of the Margaret Thatcher Infirmary, and most of the fund was used for this purpose during 2008-2009. This financial year the residual balance was transferred back to the main APML investments. Additionally £1,159,000 was transferred from cash to the APML investments.

The geographic distribution of investments was as follows

	Market value	Book Cost
	£	£
UK bonds	1,487,936	1,502,972
Non-UK bonds	99,311	87,824
UK equities	5,815,645	5,069,208
Overseas equities	3,632,833	2,962,174
Property	130,170	185,604
	<u>11,165,895</u>	<u>9,807,782</u>

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

21 Investment Property

	2010	2009
	£	£
Freehold land and buildings at valuation	<u>21,910,000</u>	<u>21,910,000</u>

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

22 Stocks

	Grant in Aid Fund	Army Prize Money and Legacy Fund	Hospital Funds 2010 (Sub-total)	Subsidiaries Restricted Funds	Total Funds 2010	Total Funds 2009
	£	£	£	£	£	£
Trading stocks	0	0	0	113,345	113,345	32,751
Consumable stores	0	0	0	0	0	0
Quartermaster	0	0	0	0	0	0
Total	0	0	0	113,345	113,345	32,751

23 Debtors

	Grant in Aid Fund	Army Prize Money and Legacy Fund	Hospital Funds 2010 (Sub-total)	Subsidiaries	Total Funds 2010	Total Funds 2009
	£	£	£	£	£	£
Sundry debtors	27,548	20,801	48,349	97,964	146,313	253,654
Prepayments	64,769	1,903	66,672	0	66,672	83,711
Accrued income	6,548	2,410	8,958	0	8,958	31,403
Total	98,865	25,114	123,979	97,964	221,943	368,768

This table excludes intercompany balances in 2009-2010. In 2008-2009 this table included £3,030,369 of intercompany transactions. To allow a meaningful comparison between years the prior year balance has been restated excluding these values.

24 Cash at bank and in hand

	Grant in Aid Fund	Army Prize Money and Legacy Fund	Hospital Funds 2010 (Sub-total)	Subsidiaries	Total Funds 2010	Total Funds 2009
	£	£	£	£	£	£
Term deposits	0	0	0	695,352	695,352	1,965,000
Other accounts and cash in hand	6,055	3,012,475	3,018,530	1,418,666	4,437,196	2,963,268
	1,624	255,855	257,479	3,050	260,529	0
Total	7,679	3,268,330	3,276,009	2,117,068	5,393,077	4,928,268

The move of funds from term deposits to bank accounts reflects the use of an instant access deposit account which gives more favourable interest rates than the term deposits for periods under three months.

25 Creditors: amounts falling due within one year

	Grant in Aid Fund	Army Prize Money and Legacy Fund	Hospital Funds 2010 (Sub-total)	Subsidiaries	Total Funds 2010	Total Funds 2009
	£	£	£	£	£	£
Sundry creditors	(2,915)	(150,000)	(152,915)	0	(152,915)	(1,009,725)
Accrued charges	(336,674)	(496,237)	(832,911)	(44,622)	(877,533)	(595,511)
Taxation creditors	(154,132)	(75,598)	(229,730)	(11,099)	(240,829)	(708)
Deferred income	0	(54,796)	(54,796)	(588,474)	(643,270)	0
Finance lease	(46,488)	0	(46,488)	0	(46,488)	(46,488)
Other creditors	(87,115)	(146,090)	(233,205)	(102,778)	(335,983)	(76,240)
Total	<u>(627,324)</u>	<u>(922,721)</u>	<u>(1,550,045)</u>	<u>(746,973)</u>	<u>(2,297,018)</u>	<u>(1,728,672)</u>

The 2009-2010 figures include no intercompany balances. In 2008-2009 this table included £3,030,369 of intercompany transactions. To allow a meaningful comparison between years the prior year balance has been restated excluding these values. One of the principal areas of growth in creditors with outside bodies is in the value of accruals that have been reported, which has increased in value by £282,022. The increase in taxation creditors is partly due to routine end of period balances totalling £141,017 and partly due to an underpayment of tax and National Insurance. For the first time the creditors reported by the limited company subsidiaries have been broken down by category.

26 Creditors falling due in over one year

	Grant in Aid Fund	Army Prize Money and Legacy Fund	Hospital Funds 2010 (Sub-total)	Subsidiaries	Total Funds 2010	Total Funds 2009
	£	£	£	£	£	£
Finance leased assets	(38,740)	0	(38,740)	0	(38,740)	(85,227)
In-Pensioners' Club capital loan	0	(201,671)	(201,671)	0	(201,671)	(201,671)
Chapel fund	0	(74,450)	(74,450)	0	(74,450)	(63,644)
Total	<u>(38,740)</u>	<u>(276,121)</u>	<u>(314,861)</u>	<u>0</u>	<u>(314,861)</u>	<u>(350,542)</u>

The leased asset is laundry equipment. The other items relate to funds held on behalf of the In-Pensioners Club and the Royal Hospital Chapel.

27 Provisions

	Grant in Aid Fund	Army Prize Money and Legacy Fund	Hospital Funds 2010 (Sub-total)	Subsidiaries	Total Funds 2010	Total Funds 2009
	£	£	£	£	£	£
Opening balance	(49,525)	(24,711)	(74,236)	0	(74,236)	(87,111)
Unwinding discount	0	(711)	(711)	0	(711)	0
Change in discount rate	0	(298)	(298)	0	(298)	0
Used in year	49,525	8,745	58,270	0	58,270	82,601
Reversed in year	0	11	11	0	11	0
Provided during year (Charged to SOFA)	0	(16,462)	(16,462)	0	(16,462)	(69,726)
Closing balance	0	(33,426)	(33,426)	0	(33,426)	(74,236)
Due in under one year	0	(18,403)	(18,403)	0	(18,403)	(58,055)
Due over one year	0	(15,023)	(15,023)	0	(15,023)	(16,181)

The provision within the Grant in Aid is in respect of nursing staff has been completely expended. The provision within the Army Prize Money and Legacy Fund relating to reduction in the number of staff within the shop and post office has been completely expended. The redundancy took place at the end of 2007-2008, but the charge from the Principal Civil Service Pension Scheme (PCSPS) was not made until 2009-2010. Within APML there are two provisions. One relates to the estimated penalty charge and interest payment in respect of an underpayment of tax and National Insurance. The remaining provision relates to the Head of Future Development who took redundancy in 2008-2009, and is in receipt of continuing payments from the PCSPS. An analysis of both these provisions is shown in the table below.

Army Prize Money and Legacy Fund provisions

	HMRC Charges	Redun- dancies 2	Shop Redundancy	Total
	£	£	£	£
As at AP12				
Opening balance	0	(20,121)	(4,590)	(24,711)
Unwinding discount	0	(711)	0	(711)
Change in discount rate	0	(298)	0	(298)
Used in year	0	4,155	4,590	8,745
Reversed in year	0	11	0	11
Provided during year (Charged to SOFA)	(16,462)	0	0	(16,462)
Closing balance	(16,462)	(16,964)	0	(33,426)
Due in under one year	(16,462)	(1,941)	0	(18,403)
Due over one year	0	(15,023)	0	(15,023)

28 Contingent liabilities

The Royal Hospital has no contingent liabilities. One was reported in 2008-2009 in respect of pensions funding for thirteen staff, who transferred to Norland managed services by TUPE. None of these staff chose to transfer their pensions to the Norland Platinum Scheme, so the liability did not crystallise.

29 Related party transactions

The President of the In Pensioners Club is the Adjutant of the Royal Hospital, and the Vice President and officers of the Club are drawn from the Adjutant's staff and the In Pensioners. The Club placed £250,000 with the Hospital on 1 September 1999, in exchange for which the Hospital agreed to meet certain of the Club's costs. The loan now stands at £201,670.

The Governor is Chairman of the Army Benevolent Fund. Transactions with the Army Benevolent Fund during the year to date amounted to £6 (£903 in 2008-2009) relating to the supply of tea and coffee.

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

30 Pensions

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

Principal Civil Service Pension Scheme (PCSPS)

Pension benefits for 161 members of staff are provided through the Civil Service pensions arrangements. The Principal Civil Service Pension Scheme (PCSPS) is an unfunded, defined benefit, contributory, public service occupational Pension scheme. The PCSPS covers four pension arrangements. New entrants joining the Civil Service from 30 July 2007 are offered membership of *nuvos*, a whole career pension with a pension age of 65. Before 30 July 2007 those joining the Civil Service would have been eligible to join one of the previous final salary arrangements of premium, classic and classic plus. Money purchase pensions known as partnership are available as an alternative for employees joining on or after 1 October 2002. Partnership is delivered through employer sponsored stakeholder pensions from a choice of pension providers.

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but the Royal Hospital Chelsea is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 2007. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

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

For 2009-2010, employers' contributions of £651,971 were payable to the PCSPS (2008-2009: £728,205) at one of four rates in the range of 17.1 to 25.5 per cent of pensionable pay, based on salary bands. The contributions have fallen by £76,234 due to the contracting out of property maintenance which accounts for approximately £64,000 of the reduction. There have also been other reductions in the pay bill over the course of the year which account for the rest of the reduction. Employer contributions are to be reviewed every four years following a full scheme valuation by the Government Actuary. Rates will remain the same next year. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

National Health Service Pension Scheme (NHSPS)

The Hospital has 62 members of staff in the NHS pension scheme which is an unfunded multi-employer defined benefit scheme, but the Hospital is unable to identify its share of the underlying assets and liabilities. The scheme is subject to a full valuation every five years. The last valuation took place as at 31 March 2006. 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 Hospital is required to pay an employer's contribution, currently 14 per cent of pensionable pay, as specified by the Secretary of State for Health. For 2009-2010, employers' contributions of £202,163 were payable to the NHS

Pension Scheme (£219,072 for 2008-2009). These contributions are charged to operating expenses as and when they become due. The reduction is temporary and reflects the restructuring of care services staff. Although the pay bill remains the same, some of the new posts have been covered by agency staff while recruitment is underway. In 2010-2011 most of the posts will be filled by employees and the pension contributions will rise to their former level.

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

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

Unfunded scheme

Former Governors, Lieutenant Governors and Captains of Invalids are members of an unfunded defined benefit scheme. The scheme has 15 retired members (or their widows) and is now closed to new entrants. The scheme is a final salary scheme with benefits based on number of years' service and final salary. Pensions paid during the year amounted to £43,312 (£46,066 in 2008-2009).

Financial Reporting Standard 17 (FRS 17) – retirement benefits

The latest FRS17 valuation of the liabilities in respect of the unfunded pension entitlements was carried out as at 31 March 2010, by an independent qualified actuary, using the key FRS17 assumptions set out in the following table, which reflect the nature of the liabilities. These pensions are all currently in payment and increase with price inflation. The following table also sets out as at 31 March 2010 the present value of the FRS17 liabilities, which is equal to the gross pension liability, along with a 4-year history. No further benefits are currently being earned under this arrangement.

	31 March 2010	31 March 2009
Assumptions		
Price inflation/pension increases	3.5% pa	2.8% pa
Discount rate	5.3% pa	6.4% pa

On the basis of the assumptions used for life expectancy, a male pensioner currently aged 60 would be expected to live for a further 28 years (2008-2009: 28 years).

	2010	2009	2008	2007	2006
	£'000	£'000	£'000	£'000	£'000
Balance sheet at 31 March					
Gross pension liability	474	423	466	467	514

The gross pension liability resides within the Royal Hospital Chelsea's unrestricted funds.

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

	Year to 31 March 2010 £'000	Year to 31 March 2009 £'000
Gross pension liability at year start	423	466
Pensions paid	(44)	(46)
Interest cost	26	32
Actuarial (gain)/loss on defined benefit pension scheme	69	(29)
Gross pension liability at year end	474	423

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

	Year to 31 March 2010 £'000	Year to 31 March 2009 £'000
Interest on gross pension liability	26	32
Total pension expense	26	32

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 2010 is a loss of £69,000 (in 2008-2009 there was a gain of £29,000). The cumulative amount recognised in the 'gains and losses' categories of SOFA since 2003 is a loss of £105,000 (in 2008-2009 there was a loss of £36,000).

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

	Year to 31 March 2010	Year to 31 March 2009	Year to 31 March 2008	Year to 31 March 2007	Year to 31 March 2006
Experience gains/(losses) on liabilities (£'000)	(4)	43	(9)	(2)	2
Percentage of the present value of liabilities	(1%)	10%	(2%)	(0%)	0%

31 Financing lease

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

	2010 £	2009 £
Two to five years	38,740	85,227
Total	38,740	85,227

32 Operating leases

Rentals payable under operating leases are charged to the Statement of Financial Activities as incurred over the term of the lease. These leases are principally in respect of office equipment. In 2009-2010 payments of £89,070 were made in respect of operating leases.

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

	Land and Buildings 2010	Other 2010	Land and Buildings 2009	Other 2009
	£	£	£	£
Operating leases which expire:				
within one year	0	6,938	0	0
In the second to fifth years inclusive	0	55,080	0	55,744
over five years	0	0	0	0

33 Capital commitments

	2010	2009
	£	£
Authorised and contracted	518,805	3,055,957
	518,805	3,055,957

Capital commitments have reduced since last year due to the excellent progress on the refurbishment of Long Wards 23 and 24 to en suite standard. The balance as at 31 March 2010 relates to the remainder of that project, and design work on the Long Wards Redevelopment Project.

34 Fund accounting

Unrestricted funds

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

Restricted funds

These funds are subject to specific restriction made by the donor, including the Chapel Deposit which represents accumulated donations in respect of the chapels on site. The bulk of restricted funds are held within the Royal Hospital Chelsea's subsidiary of RHC Appeal Ltd where they relate to the Long Ward Refurbishment Programme.

Designated funds

There are at present no designated funds within the Group.

35 Derivatives and other financial instruments

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

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

In aggregate the performance of the fund managers is compared on a total return basis with the FT All-Share Index, the FT All Stock Index, Cash Deposit and the Composite Index-Based Benchmark.

Interest rate risk

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

Currency risk

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

Market price risk

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

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

36 Post balance sheet events

There were no post balance sheet events. These accounts are authorised for issue on 16 July 2010.

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