

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

Royal Hospital Chelsea Account 2011-12

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Officers and Commissioners

Chairman of the Board of Commissioners

HM Paymaster General

Ex-officio Commissioners (as at 31 March 2012)

HM Paymaster General – Rt Hon Francis Maude MP

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

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

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

Director General Resources Land Forces Command – David Stephens Esq

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

Assistant Chief of the General Staff – Major General J Everard CBE

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

Specially Appointed Commissioners

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Mrs S Phillips OBE DL

Professor Dame Janet Husband DBE FMedSci FRCP FRCR

Sir Michael Jenkins KCMG

S Corbyn Esq

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Norland Managed Services Ltd
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London SE1 IRU

Bankers

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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 provides the same care today and plans to continue to do so.

Governing documents and charitable objects

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

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

The Royal Hospital provides 24-hour cover for 365 days of the year. The staff of the Royal Hospital number 251 full and part-time of whom 95 are medical, nursing and care staff.

An annual Grant in Aid from the Ministry of Defence provides in large part but by no means entirely for the maintenance of the Royal Hospital buildings and for meeting the cost of fuel and lighting, food, furniture, clothing, medical care for In-Pensioners, staff costs and other costs relating to the welfare of In-Pensioners. In exchange, the In-Pensioners surrender their Army long service and/or their disability pensions when they are admitted to the Royal Hospital. The use to which the Grant in Aid fund is put is set out in detail in the notes to the Financial Statements. The Grant in Aid is governed by a Framework Document signed on 13 August 2010.

Public Benefit Statement

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

The Royal Hospital Chelsea provides sheltered accommodation for Army veterans of either sex aged 65 or over and has care home and hospice 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 and the wider veteran community. As a result of a recent initiative they are also increasingly making a contribution to the well-being of other groups of veterans, including those in prison and homeless, through the outreach programme.

The Commissioners' current aims are to modernise the accommodation so that it meets the expectation of future In-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 and approves the policy for the admittance of In-Pensioners. The Board is responsible for all major expenditure and governance decisions. The Board has a number of Committees: the Audit Committee, the Clinical Governance Oversight Committee, the Estates Committee, the Investment Committee, the Nomination Committee and the Remuneration Committee. The operations of the Royal Hospital are conducted through the Management Board which is chaired by the Lieutenant Governor and attended by all of the departmental heads.

Monitoring of performance

The Commissioners review aspects of the performance of the Royal Hospital at their quarterly meetings and in the subordinate committees. At executive 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 ensuring that satisfactory accounting records are kept 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 materially complies with 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 and considered monthly by the Management Board. It aims to cover a wide range of topics including fire, legal, health and safety, finance, and terrorism. The main risk register is linked to the subordinate 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 three wholly owned trading subsidiaries, Chelsea Pensioner (RH) Ltd, Tricorne Traders Ltd and RHC PM Scholars Ltd.

Aims, Objectives and Activities

As noted above 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 now completed Margaret Thatcher Infirmary and the modernisation of the remaining living accommodation in the historic Long Wards.

Principal Activities of the Year

This has been the fourth full year of running the Margaret Thatcher Infirmary, which contributes greatly to the life of the Royal Hospital.

Work commenced on the North East Pavilion to provide en-suite accommodation for In-Pensioners. The Chelsea Pensioners Club was finally renovated and 2011-12 was the first full year of running the Café in the MTI conservatory. These have been well received by In-Pensioners and visitors alike.

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. 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, exercising a ministry that mirrors that of an Anglican parish priest. He also oversees the provision of a similar service for other denominations. The main Wren Chapel of the Royal Hospital has been licensed as a place of public worship since 1691 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 and organists. 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, located within the Margaret Thatcher Infirmary, where regular services and most In-Pensioner funerals are held. All Saints Chapel is used by other Christian denominations as required and regular Roman Catholic services are held there on Sundays by a visiting Roman Catholic priest. The main Wren Chapel is also the venue for the annual RHC Concert Series held in October and November.

During the financial year, from voluntary giving and specific donations, the Chapel Community established a designated fund to help support the Choir and musicians, made outward charitable donations on behalf of the Royal Hospital community in excess of £25,000, funded the move of the Roman Catholic community from its own chapel to co-locate in All Saints Chapel, and contributed significantly to the upkeep of furnishing, fabric and fittings of both chapels.

Secretariat

The Secretariat is a small department in terms of staff numbers and covers secretariat support to the Board of Commissioners, human resources, finance, risk management and insurance. These are all areas which are regarded by RHC's internal auditors as containing key business controls.

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 Finance Department provides financial and management accountancy services for all Royal Hospital funds and provides accounting support to the limited company subsidiaries. It also operates the Royal Hospital's payrolls. The department receives all cash and makes payments to suppliers and provides treasury services for the funds of the Royal Hospital. It supports management decision making and it provides regular reports on financial performance to the Board of Commissioners and the Management Board. It supports the work of the Commissioners' Investment and Audit Committees and works closely with the Royal Hospital's external and internal auditors. It also works with the external auditors of the Hospital's subsidiary company group consisting of Royal Hospital Appeal Ltd, Chelsea Pensioners (RH) Ltd, Tricorne Traders Limited and RHC Prime Minister Scholars Ltd.

Adjutant

The Adjutant's Department deals with In – Pensioner admissions and the daily welfare and administration of all Chelsea Pensioners. This year there have been a number of changes within the Department with the changeover of the Adjutant, Sergeant Major and the appointment of an Administrative Assistant. The cost of the latter was more than offset by a reduction of one Captain of Invalids post.

The internal focus this year has centred on the development of a comprehensive training programme for all the staff within the Department, recruitment of In-Pensioners by raising the awareness of the eligibility criteria for In-Pensioners and the development of an outreach programme. The outreach programme which is designed for In-Pensioners to give back to the military and local communities has been very successful and has aligned the Royal Hospital with a night shelter in Kensington and Chelsea, with Veterans' Aid and their hostel for homeless ex-servicemen and women in the East End of London and with one of the Army's recuperation centres for injured servicemen. Additionally the Royal Hospital is engaged with Wormwood Scrubs and Wandsworth prisons with the aim of linking the elder veteran to the younger veteran whose life may have gone astray.

Recruitment is improving this year with a refreshed website, the production of a new brochure and of a new DVD film together with the creation of two In-Pensioner presentation teams which are available to support external organisations.

The requests from external organisations for representation by In-Pensioners at external events has increased this year with requests to support the many Diamond Jubilee events including the Armed Forces' Muster at Windsor Castle in May and the River Thames Royal Pageant in June and the Opening Ceremony of the Olympic Games in July. The Department has also continued to support national events such as the Cenotaph Remembrance Service, the RBL Festival of Remembrance at the Royal Albert Hall and the Edinburgh Military Tattoo. We have also reintroduced battlefield tours into the annual programme with a tour to the Somme.

Margaret Thatcher Infirmary

The Margaret Thatcher Infirmary incorporates a 100 bed care home with nursing and a medical centre delivering primary health care to all Pensioners and entitled staff. We continue to develop an excellent reputation for care of the elderly in a community that values shared history and comradeship. Our activities team offers a full range of therapeutic and social programmes to improve the quality of lives for those who live with us. We are regulated by the Care Quality Commission for the care home with nursing, and by the Inner North West London Primary Care Trusts for the medical centre. Care is delivered by a multi-disciplinary team led by the Physician & Surgeon and the Matron.

We have achieved registration for domiciliary care which will offer an improved transition of care from the Long Wards to the Infirmary. We are planning to achieve the Gold Standard status for end of life care this year. We have embarked on an ambitious project to improve the care and environment for all Pensioners with dementia. We have achieved excellent revenue streams from the PCT through quality improvement compliance and we have established an affiliation with a local medical practice. This has improved continuity of care and the development of on-site clinics.

The Clinical Governance Oversight Committee is Commissioner led and meets quarterly to report to the Board of Commissioners.

Director Facilities Management/Quartermaster

The Director of Facilities Management/Quartermaster is responsible for the management of the whole of the RHC estate: 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, ICT, the upkeep of the 66 acres of grounds, all building and infrastructure related projects undertaken within the establishment.

In addition, he is the Royal Hospital's Health and Safety Officer, Environmental Officer and the Sustainable Development responsible person.

Facilities Budget Management

Given the Quartermaster's Department controls and spends some 80 per cent of the RHC running cost budget, the Budget Manager's position continues to be vital to the successful day to day operations of the Department. Resource Managers have delegated but highly controlled powers that ensure the budget is run and controlled in a taut, effective and efficient manner, ensuring correct accountability and visibility of the budget at all times.

Property Maintenance & Management

Property Maintenance & Management is an outsourced discipline at the RHC and has now been outsourced for three years. The RHC continues to receive an excellent level of service, so much so that the option to extend the contract to a seven-year contract has been exercised. The in-year works programme and the 5 year forward maintenance plan are now highly effective management tools to allow both tactical and strategic planning to occur which is of major benefit to the RHC in respect of effectiveness and efficiencies and also in obtaining value for money.

The property help desk continues to be an integral part of the service offered by the outsourced property discipline and this facility continues to bring added benefits to the RHC in respect of the day-to-day maintenance of the establishment and customer satisfaction. The outsourced property company, due to their efficient working practices, manages many of the minor 'injected' RHC projects.

Grounds

The Grounds Department is now in the fourth year of a forward maintenance programme, which has seen great improvements in staff efficiency and productivity due to investment in modern machinery and staff training. An historical survey has been completed in the last three months; this is part of an on-going study to make possible aesthetic improvements around the entire grounds in order to enhance the magnificent Wren buildings and thus help maintain their historical significance. Facilities and improvements have been made for In-Pensioners and other veterans who use areas of the grounds for horticultural therapy and leisure, including upgrades in support to In-Pensioners allotments. Tree maintenance work continues at pace in order to meet Health and Safety requirements and to ensure the continued longevity of many important specimen trees within the Royal Hospital landscape.

The first back to back events of the Royal Horticultural Society's Flower Show and Masterpiece London were a great success, with the grounds being amply protected and returned back to good quality grass areas well within the predicted time and cost scales. Other smaller scale weekend events are being assessed for the future to ensure that the grounds are utilized to their full commercial potential, but without causing undue damage or inconvenience to the In-Pensioners and other visitors to the grounds.

Visitor and Security Services

The Visitor and Security Services at the RHC is in its second year of being an outsourced discipline and we continue to see major improvements to the services that are provided. The team consists of a Visitor and Security Manager, 22 fully trained Visitor and Security Officers and Receptionists. The introduction of state of the art reporting and monitoring procedures have ensured the needs of customer, the In-Pensioner, are met 24 hours a day 365 days a year.

Catering

The Catering Department has gone from strength to strength during the last year with the Head of the Department, the Food and Beverage Manager, ensuring that, under the banner of the trading company Tricorne Traders Ltd, the retail and welfare outlets of the onsite Café and newly refurbished Chelsea Pensioners Club have flourished and developed into thriving concerns.

All transactions within the Department are now computerised ensuring taut and efficient accounting procedures with little, if any, room for financial errors. Improvements to the catering service in the Great Hall will be implemented in this year e.g. a new salad bar.

Projects

The major project to modernise the In-Pensioners living accommodation within the Christopher Wren Long Wards has been awarded to Wates Construction Limited and the project will be carried out in three phases with the first phase commencing in October 2011 and the final phase expected to be complete in early 2016. On completion of the project, the RHC will see all In – Pensioner accommodation modernised to provide en-suite rooms and facilities. In preparation for the modernisation of the Long Wards a project to replace the main boilers within the RHC has been completed and we are already seeing better efficiency and major savings being made in respect of utility consumption.

Additionally, the refurbishment of the Chelsea Pensioners Club was also completed in year, on time and to budget, providing a much improved and enhanced welfare facility for both In-Pensioners and staff of the RHC.

Procurement

The Procurement Manager's (PM) role oversees all procurement matters within the RHC with an aim to promote the scrutiny of requirements and increase exposure of these requirements to competition in order to ensure transparency, a fair and equitable process and to obtain best value for money. The PM has continued to seek improvement in procurement procedures this year with increased competition, governance of purchasing procedures, including the wider use of the Government Procurement Card, undertaking category reviews to seek efficiencies in goods and services procured, recommending procurement strategy, introducing key performance indicators to major contracts, being an integral team member of major works projects and improving contract monitoring. The function and controls introduced have successfully passed internal audit and greatly improved value for money in goods and services purchased.

Two of the larger tasks of this last FY, aside from the letting of the Long Ward Refurbishment Contract, were the re-let of Provision of Uniforms contract (covering the capital issue of the new Scarlet uniform) and the on-site laundry contract, with both tender processes being competitively run, in accordance with EU Directives.

Compliance

The Compliance Manager appointment is now in its second year and continues to deliver outstanding benefits to the RHC, particularly in respect of the day-to-day management of utilities. The Compliance Manager continues to ensure that efficiencies are sought across all utilities consumed by the RHC and we continue to see a reduction in consumption year on year, as improved boilers and other energy efficiency measures already implemented and planned for FY2012/13, including improved sub metering and insulation works start to take effect.

Regular stakeholder meetings take place as a 'Compliance Working Group' to ensure that information flows in all directions to ensure maximum staff and In-Pensioner participation in Energy Efficiency initiatives and also as a forum for Health and Safety. The Compliance Manager has also introduced policies across his whole range of responsibilities placing the RHC in a satisfactory position in respect of compliance, legislative and statutory matters. The coming year will see further work at the continued integration of these disciplines and the adoption of an online system to manage the documentation and work flow processes. The Compliance Manager has also taken on responsibility for all curatorial matters at the RHC: Museum, Archives, Works of Art and Library.

Curatorial

Management objectives for the Curatorial team have been established to ensure that the Historical Fabric of the Royal Hospital and the RHC collection of artefacts and works of art are preserved for the enjoyment of future generations of Pensioners, Residents and Staff and for the public at large. This on-going process has included a revaluation of the artefacts comprising the Royal Hospital collection, the compilation of photographic records of all works of art, in conjunction with the Public Catalogue Foundation project and a revised Care Directive being issued.

A review of Museum and Archive policies and procedures is being conducted and the manner in which the story of the Royal Hospital is both displayed and preserved is being reconsidered with a view to enhancing both by increased use of interactive technologies. In addition, the Royal Hospital library has been relocated to a more central and In-Pensioner friendly position within the Hospital, with its holdings and policies to be further integrated with the Museum and Archives in the future.

Service Support

As with Compliance, the introduction of a Service Support Manager has proved to be highly beneficial with effectiveness and efficiencies being produced in respect of day to day site operations. The post holder has also taken on responsibility for the outsourced Visitor and Security Services and is the Contract Designated Officer. The holder is also the RHC Estate Manager who has responsibility for all Accommodation matters at the RHC. Additionally, the position provides the RHC with all Housekeeping and Portering Services in support of In Pensioner Care, in conjunction with CQC regulations.

Quartermaster's Stores

The Stores have developed excellent procurement processes and fully support the RHC requirements in respect of SMART procurement. They achieve best value for money (VFM) and deliver products/services to customers in an efficient and effective manner. This has recently been demonstrated in seeing through the procurement of the new Scarlet uniforms, whereby the In-Pensioners now receive one Scarlet Uniform that serves for both hot and cold weather.

Information & Communication Technology (ICT)

The Department supports the information technology and communications systems throughout the Royal Hospital Chelsea. This year a comprehensive ICT review was undertaken, a recommendation of which was to transfer the function to the Facilities Management department. Work has been completed on a new Business Continuity system, the implementation of a VOIP system, a rollout of MSOffice 2010 and documenting networks. The ICT team will be implementing a new Document Management system later in 2012.

Business Development Department

The Business Development Director is responsible for building and sustaining the Royal Hospital's commercial business and fundraising activities. The Director 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's contribution to the nation.

Particular achievements over the past year include the return of Masterpiece London, Auto Legends and Bikeathon; the conversion of the Prince of Wales Hall to create a new income stream; a Venue Showcase event to raise awareness of the RHC as a venue in London and the award of membership to the 'Unique Venues in London' which increases greatly the RHC profile as a venue at the top end of the events market.

The business development team continued to manage the memberships and events of the Hospital's related charity Friends of the Royal Hospital. Since its launch in 2008 Friends now has 2079 members (2011: 2000) and has donated £635,000 (2011: £400,000) to the Chelsea Pensioners' Appeal.

Future plans include the sale of Gordon House, the proceeds of which will be used to complete the Long Ward Modernisation programme and future capital development projects throughout the Hospital.

The department will also be taking a more proactive approach to legacies in order to generate longer term income for its beneficiary. Additionally plans are being developed under the guidance of the Estates Committee to identify other opportunities for development and income generation.

The Business Development Department is constantly assessing new business opportunities to maximise profits and this year gave a net contribution of £1,635,574 to the Royal Hospital Chelsea.

Financial review and results for the year

Financial Review

Grant in Aid

The Grant in Aid (GIA) funds the majority of the care of the In-Pensioners, including food and utilities. The total funding received from MOD was £11,001,000 (2011: £10,838,000). At the end of the year only £52,567 (2011: £10,059) remained in GIA bank accounts unspent. However, at the end of the year there is only a surplus of £33,749 (2011: £42,702) in the GIA fund, hence the amount in the bank is purely a timing difference as all GIA monies and more has been spent. The variance from last year arises because in 2010-11 there was a change in indexation of the closed pension scheme from RPI to CPI, which gave rise to a small non-cash surplus in GIA. In the course of the year some £1,085,500 (2011: £900,000) of expenditure that met the criteria for GIA, but where GIA funds were not available, was paid for from Army Prize Money and Legacy Fund where it can be covered by income from the subsidiary companies.

The difference between the SOFA and the cash flow is analysed fully in the cash flow statement. Although the GIA balance sheet shows an excess of liabilities over assets, payments due from Grant in Aid will continue to be made owing to the continuing MoD funding that was agreed in the Framework Document.

Army Prize Money and Legacy Fund

The Army Prize Money and Legacy Fund (APML) had income of £2,150,427 (2011: £2,900,736). The reduction since last financial year arises from more than one cause. There has been a reduction in voluntary income of £409,765. This partly arises as in 2010-11 there was a one off donation to the APML of £201,670 on the winding up of the In-Pensioners Club and in part because income from legacies (principally the EH Dashwood estate) was £92,845 lower than the previous year. Investment income has fallen by £341,327 principally due to lower property income.

Additionally funds were donated from RHC Appeal of £1,635,574 (2011: £2,793,028). The principal reason for the variance from last year is that the donation from RHC Appeal in respect of running costs for 2011-12 was not made until the first accounting period of 2012-13. In 2010-11 this donation amounted to £900,000. The donation for the Development Programme amounted to £1,635,574 (2011: £1,893,028) including refurbishment of the North East Pavilion, design costs for the Long Wards Refurbishment and the installation of new boilers. The reduction relates to the availability of funding within RHC Appeal Ltd to finance this work.

Revenue expenditure charged to the APML was £12,051,732 (2011: £9,632,198) of which £8,196,951 (2011: £7,571,114) related to depreciation on Fixed Assets. The increase in depreciation relates to the revaluation of fixed assets which took place in year. There was also an increase of expenditure of £1,146,496 relating to the refurbishment of the Chelsea Pensioners Club. The rest of the increase in expenditure is made up of a number of smaller increases in direct expenses and the transfer of £391,493 of apportioned costs from GIA to avoid costs being apportioned to activities outside the scope of the GIA.

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 FRS17 there is a pension liability of £425,000 (2011: £432,000) attributable to the Grant in Aid fund (see note 23).

Reserves policy

As Grant-in Aid is provided on an annual basis with limited provision for carry forward and as GIA may not be used for capital acquisitions, the GIA balance sheet usually shows liabilities exceeding assets. In these circumstances it is very unlikely that the Royal Hospital Chelsea would be able to set up any reserves within GIA.

As at 31 March 2012 the Army Prize Money and Legacy Fund had reserves of £567,289,995 (2011: £603,562,123) including restricted funds of £1,003 (2011: £51,451 – incorrectly included Chapel Fund of £36,012 which has been corrected in the current year), being principally the remaining balance in the Cadogan Fund. The reduction in total reserves is largely due to the reduction in the revaluation reserve following the March 2012 valuation of land and buildings.

Royal Hospital Chelsea Appeal Limited and its subsidiaries held reserves of £1,367,965 (2011: £102,193), of which £85,664 (2011: £256) are restricted. The increase in reserves is largely due to the donation to the APML in respect of 2011-12 running costs being made in 2012-13. RHC Appeal reserves are maintained at a level to meet the charitable objectives of the organisation.

Tangible fixed assets

The Hospital's operational land and buildings are stated at a professional valuation obtained in March 2012. In accordance with the Royal Institution of Chartered Surveyors guidance, the valuation basis is depreciated replacement cost. This basis is intended to measure the value to the Hospital of the assets in their present location, use and condition.

At the end of the financial year the operational Land and Buildings have a net book value of £475,221,829 (2011: £563,292,052). The reduction in value reflects the downward revaluation of the operational estate. There are assets under construction of £3,301,610 (2011: £1,652,401) of which refurbishment of the North-East Pavilion and the design work on the Long Wards refurbishment are the major items. Investment assets have a value of £58,500,000 (2011: £21,910,000). The increase in value is the result of the March 2012 valuation.

In order to comply with FRS30 exhibits have been revalued and now have a total value of £15,782,515 (2011: £192,664). Plant machinery and equipment has a net book value of £2,627,902 (2011: £1,758,598). The increase arises principally because of the installation of new boilers. Vehicles have a net book value of £80,753 (2011: £91,204). The reduction is solely the result of depreciation.

Investment policy and objectives

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

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

Payments to Suppliers

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

Plans for future periods

Development plans

New boilers have been installed. As noted above there are plans to concentrate on the modernisation of all the Long Ward accommodation, which are 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 and the Charities Act 2011. An audit fee of £33,000 has been charged for the audit (2011: £32,000) and is included in the Governance costs of the Hospital. The increase in fee reflects the actual time taken to complete the audit. No non-audit work was carried out on behalf of the Hospital in 2011-12.

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.

PWD Hatt
Secretary and Accounting Officer

9 October 2012

Major General APN Currie
Lieutenant Governor
on behalf of the Board of Commissioners
9 October 2012

Governance Statement

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 system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore provide only reasonable and not absolute assurance of effectiveness. The system of internal control is based on a continuing process designed to identify and prioritise the risks to the achievement of the Royal Hospital's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively, and economically.

The RHC is established and given its authority by Letters Patent, the latest version of which dates from 21 November 2003. The RHC is a self-regulatory body, governed by Commissioners appointed by the Crown. During the last year the Board of Commissioners reviewed the RHC governance arrangements and approved a new governance overview designed to set out in detail the framework for its governance.

The Board of Commissioners is satisfied that it is continuing to work effectively in accordance with appropriate codes of governance and with its overall governance arrangements for the benefit of the RHC's principal aims, namely, the care of In-Pensioners and the conservation of its buildings and grounds.

The production and adoption of a new governance overview document involved a substantial consideration by the Board of Commissioners about its composition, performance and effectiveness as well as the work of the RHC as a whole. Following the requirements of the Corporate Governance code, the Board has thus achieved a strategic clarity in its work, is focused on results and has been provided with sound management information which had allowed it to act in a well-founded commercial way in respect of its various business opportunities over the financial year. In particular, the Board has been provided with a substantial amount of financial information on its capital programmes and has been able to rely on the data provided to it which has been governed by the Financial Framework between the Royal Hospital and the Ministry of Defence in respect of Grant in Aid as well as the production of information from the Royal Hospital subsidiary bodies in accordance with commercial standards.

The Board of Commissioners meets on a regular basis every three months. Its meetings have been very well attended by both Ex Officio and Specially Appointed Commissioners; the Governor (Chairman) and the Lieutenant Governor (CEO) have always been present. For historical reasons there are Ministers in ex-officio appointments who play a limited direct role in the governance of the RHC. The Board has considered on each occasion a comprehensive report from the Lieutenant Governor on the work of the RHC Management as it puts the Board's strategic guidance into effect through its management planning system. It has also addressed a wide range of important strategic issues, including most especially the Long Ward modernisation programme and plans to raise further capital funding. The Board also receives minutes and other reports from its Committees. The Board held a strategic 'Away Day' during the course of the year. It is now the practice for the Management Board to join the first part of the Board of Commissioners' meetings so as to promote relationships between Commissioners and senior staff and to allow an easy interchange of information. The Board judges that this change has been of great benefit.

The Board of Commissioners has six committees as set out in the organisational structure and decision making paragraph above. These continue to work well and to effect. In particular its Nomination Committee has proposed to make recommendations to the Crown for filling forthcoming vacancies for Specially Appointed Commissioners and its Clinical Governance Oversight Committee has helped to assure an excellent record of care of In-Pensioners in the Margaret Thatcher Infirmary.

As to the Board of Commissioners' Audit Committee, this met four times during the course of the financial year and considered in addition to the RHC Accounts such matters as the renewal of insurance policies, the Government's Clear Line of Sight Policy and the quinquennial revaluation of land and building assets. The Audit Committee also noted the strengthening of the finance section by the recruitment of an additional staff member and the work towards a closer compliance with charity Statement of Recommended Practice.

The Board of Commissioners intends, in accordance with its new governance overview document, to have a specific review of its own work and performance every three years and for the Board of Commissioners to review its overall governance arrangements in the first year of a new Governor's term of office.

The Board of Commissioners, supported by the Management Board, has in the past year considered and revised the RHC's Mission and Vision Statements. The Mission Statement is: 'To provide veterans with the care and comradeship they need in recognition of their service to the Nation.'

Capacity to handle risk

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

Risk is regarded as a key management tool at the RHC and the Royal Hospital Chelsea has a long established and mature capacity to handle risks to its business of all kinds. Its Risk Register is a living document which sets out the top ten risks to the business (which include such matters as fire, financial matters, health and safety and disruption from external events); both the initial impact and initial probability of each of the risks are separately defined and control mechanisms which are designed to mitigate each risk are set out in detail. The residual impact and residual probability of each risk is then established and a monitoring process defined in respect of each individual risk. Each risk is owned by a member of the Management Board and the risk register is considered by the Management Board as a whole at its monthly meetings and addressed by the Audit Committee in meetings throughout the year.

In addition to the risk register itself, the Royal Hospital has established the following processes to handle risk:

- 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, carry out management planning and develop policy for the 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.
- The Management Board deem the following items to be key risks:
 - i Financial risk – major reduction in Grant in Aid funding.
 - ii Fire particularly during Long Ward modernisation programme which involves hot works in an old building.
 - iii Reputational.

These risks are managed by:

- i Grant in Aid funding – The Senior Management Team maintain good dialogue with the MoD ensuring that information relating to expenditure is provided as requested and that expenditure falls within the agreed guidelines.

Additionally, the Management Team seeks to enhance other forms of income from the trading subsidiaries such as taking a more proactive approach to legacies in order to generate longer term income and plans are being developed under the guidance of the Estates Committee to identify other opportunities for development and income generation.

- ii Fire – all new employees undergo comprehensive induction including fire safety awareness testing and Health & Safety awareness. The Hospital has an appointed Health & Safety Committee who meets regularly and ensures that information is disseminated to staff and on-site contractors.
- iii Reputational Risk – All new staff are briefed during induction as to the Hospital's policies and standards relating to conduct. Any complaints, if received, are handled in a timely and sensitive manner to reduce potential areas of conflict.

Additionally, In-Pensioners are encouraged to adhere to appropriate forms of dress code (eg Scarlets, Uniforms) and conduct both inside and outside the Hospital grounds.

Fraud Prevention and Detection

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

Review of effectiveness

The Commissioners and Accounting Officer have responsibility for reviewing the effectiveness of the RHC governance. Their review is based on:

- Periodic reports from the Chairman of the Audit Committee to the Board of Commissioners concerning internal control.
- Internal Audit reviews of internal control and risk management. Internal Audit Services were provided by Crowe Clark Whitehill. The latest report confirms that internal controls are working well.
- 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.

Post balance sheet date, the Lieutenant Governor and Accounting Officer commissioned a review of the effectiveness of the finance function. Subsequently a report was submitted to Senior Management and the Audit Committee outlining recommendations for the restructuring of the finance function. The key elements of such a restructuring are to enhance significantly the skills set of the finance staff by recruiting formally qualified accountants in two new positions as Group Finance Director and Group Financial Controller. These are Group roles to facilitate stronger and more efficient controls across the entire organisation.

The timing of the submission of the accounts to Parliament has been delayed due to resource constraints at the year-end period. It is intended that in future years the accounts will revert to pre- summer recess submission.

PWD Hatt
Secretary and Accounting Officer

9 October 2012

Major General APN Currie
Lieutenant Governor
on behalf of the Board of Commissioners
9 October 2012

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

I certify that I have audited the financial statements of the Royal Hospital Chelsea for the year ended 31 March 2012 under the Chelsea Hospital Act 1876. The financial statements 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 Trustees/Board, Accounting Officer and Auditor

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

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

Scope of the audit of the financial statements

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

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

Opinion on regularity

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

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Royal Hospital Chelsea's affairs as at 31 March 2012 and of its incoming resources and application of resources for the year then ended; and
- the financial statements have been properly prepared in accordance with the Chelsea Hospital Act and the accounting policies set out within them.

Opinion on other matters

In my opinion:

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

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General

15 October 2012

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

Consolidated Statement of Financial Activities for the year ended 31 March 2012

	Notes	2012						2011
		Grant In Aid		Army Prize Money & Legacy Fund		Subsidiary Companies		Group Funds
		Unrestricted Funds	Restricted Funds	Unrestricted Funds	Restricted Funds	Unrestricted Funds	Restricted Funds	
		£	£	£	£	£	£	
Income resources								
Incoming resources from generated funds								
Voluntary income								
Legacies	2	0	181,139	0	0	0	273,984	
Donations	2	0	153,248	100,000	505,335	1,285,408	1,243,639	
Activities for generating funds	3							
Trading income	3	0	26,035	0	2,456,319	0	2,482,354	
Investment income	3/4	614	1,635,251	0	12,305	0	1,648,170	
Incoming resources from charitable activities								
Grant in Aid from MOD	5	11,001,000	0	0	0	0	10,838,000	
Other incoming resources	6	422,205	54,754	0	0	0	485,689	
Total incoming resources		11,423,819	2,050,427	100,000	2,973,959	1,285,408	17,833,613	
Resources expended								
Costs of generating funds								
Costs of generating voluntary income	7	0	1,562,957	0	126,569	0	1,689,526	
Trading expenditure	3/10	0	32,243	0	1,205,634	0	1,237,877	
Investment management costs	10	0	61,767	0	0	0	61,767	
Total cost of generating funds		0	1,656,967	0	1,332,203	0	2,989,170	
Charitable activities								
Infirmary nursing and medical	10	3,268,968	2,139,289	0	0	0	5,408,257	
Welfare and ceremonial	10	427,922	3,739,643	51,620	0	0	4,219,185	
Facilities management	10	7,118,958	3,832,581	0	0	0	10,951,539	
Total cost of charitable activities		10,815,848	9,711,513	51,620	0	0	20,578,981	
							18,433,724	

Governance costs	9	560,222	631,632	0	25,818	0	1,217,672	972,630
Total resources expended		11,376,070	12,000,112	51,620	1,358,021	0	24,785,823	22,042,407
Net incoming/(outgoing) resources before transfers		47,749	(9,949,685)	48,380	1,615,938	1,285,408	(6,952,210)	(5,105,560)
Transfers between funds		0	1,734,402	(98,828)	(435,574)	(1,200,000)	0	0
Net incoming/(outgoing) resources before other recognised gains and losses		47,749	(8,215,283)	(50,448)	1,180,364	85,408	(6,952,210)	(5,105,560)
Gains/(losses) on investments and tangible fixed assets								
Realised profit/(loss) on investments		0	678,008	0	0	0	678,008	14,274
Realised loss on disposal of fixed assets		0	(5,701)	0	0	0	(5,701)	0
Unrealised gains/(losses) on investment assets	14	0	(858,551)	0	0	0	(858,551)	605,122
Prior years AUC reclassified as expense		0	0	0	0	0	0	(22,210)
Actuarial gains/(losses) on defined benefit pension	23	(14,000)	0	0	0	0	(14,000)	0
Movement on revaluation reserve		0	(27,820,153)	0	0	0	(27,820,153)	0
Net movement in funds		33,749	(36,221,680)	(50,448)	1,180,364	85,408	(34,972,607)	(4,508,374)
Reconciliation of funds								
Total funds brought forward		(401,473)	603,510,672	51,451	101,937	256	603,262,843	607,771,217
Total funds carried forward	12	(367,724)	567,288,992	1,003	1,282,301	85,664	568,290,236	603,262,843

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

Consolidated Balance Sheet as at 31 March 2012

	Notes	2012 Restricted Funds £	2012 Group Funds £	2011 Group Funds £
Fixed assets				
Tangible fixed assets				
Heritage	13		16,022,515	402,664
Non heritage	13		480,992,094	566,584,255
Listed investments	14		11,522,551	11,749,123
Investment property	15		58,500,000	21,910,000
			567,037,160	600,646,042
Current assets				
Stock	16	154,766		158,932
Debtors	17	329,800		758,297
Cash at bank and in hand	18	3,661,784		4,240,402
Total current assets		4,146,350		5,157,631
Creditors				
Amounts falling due within one year	19	(2,362,156)		(2,060,818)
Net current assets			1,784,194	3,096,813
Total assets less current liabilities				
			568,821,354	603,742,855
Creditors				
Amounts falling due over one year	20		(106,118)	(48,012)
Defined pension scheme liability				
	23		(425,000)	(432,000)
Total net assets				
			568,290,236	603,262,843
Reserves				
Grant in Aid Fund	12		(367,724)	(401,473)
Army Prize Money & Legacy Fund				
Restricted funds	12	1,003		51,451
Unrestricted funds	12	250,431,576		258,833,103
Revaluation Reserve	12	316,857,416		344,677,569
Funds retained in Royal Hospital Chelsea Appeal Ltd				
Unrestricted	12	1,259,691		55,752
Restricted	12	85,664		256
Retained profit in trading subsidiaries	12	22,610		46,185
Consolidated Army Prize Money & Legacy Fund				
			568,657,960	603,664,316
Total reserves				
			568,290,236	603,262,843

PWD Hatt
Secretary and Accounting Officer

9 October 2012

Major General APN Currie
Lieutenant Governor
on behalf of the Board of Commissioners
9 October 2012

Royal Hospital Chelsea Balance Sheet as at 31 March 2012

	Notes	Grant In Aid Fund £	2012 Army Prize Money & Legacy Fund £	Hospital Funds £	2011 Hospital Funds £
Fixed assets					
Tangible fixed assets					
Heritage	13	0	16,022,515	16,022,515	402,664
Non heritage	13	428,288	480,475,800	480,904,088	566,520,598
Listed investments	14	0	11,522,551	11,522,551	11,749,123
Investment property	15	0	58,500,000	58,500,000	21,910,000
		<u>428,288</u>	<u>566,520,866</u>	<u>566,949,154</u>	<u>600,582,385</u>
Current assets					
Debtors	17	91,464	99,545	191,009	197,269
Cash at bank and in hand	18	52,567	1,785,560	1,838,127	3,686,444
Total current assets		<u>144,031</u>	<u>1,885,105</u>	<u>2,029,136</u>	<u>3,883,713</u>
Creditors					
Amounts falling due within one year	19	(964,883)	(590,092)	(1,554,975)	(1,318,584)
Net current assets/(liabilities)		<u>(820,852)</u>	<u>1,295,013</u>	<u>474,161</u>	<u>2,565,129</u>
Intercompany balances		449,840	(419,766)	30,074	493,148
Total assets less current liabilities		<u>57,276</u>	<u>567,396,113</u>	<u>567,453,389</u>	<u>603,640,662</u>
Long term creditors	20	0	(106,118)	(106,118)	(48,012)
Net assets excluding pension liability		<u>57,276</u>	<u>567,289,995</u>	<u>567,347,271</u>	<u>603,592,650</u>
Defined pension scheme liability	23	(425,000)	0	(425,000)	(432,000)
Net assets including pension liability		<u>(367,724)</u>	<u>567,289,995</u>	<u>566,922,271</u>	<u>603,160,650</u>
Reserves					
Restricted funds	12	0	1,003	1,003	51,451
Unrestricted funds					
Grant in Aid	12	(367,724)	0	(367,724)	(401,473)
Army Prize Money & Legacy Fund	12	0	250,431,576	250,431,576	258,833,103
Revaluation reserve	12	0	316,857,416	316,857,416	344,677,569
Total reserves		<u>(367,724)</u>	<u>567,289,995</u>	<u>566,922,271</u>	<u>603,160,650</u>

Consolidated Cash Flow Statement for the year ended 31 March 2012

	2012			
	Grant In Aid Fund £	Army Prize Money & Legacy Fund £	Subsidiaries £	Group Funds £
Net cash flow from operating activities	41,894	(883,280)	1,291,765	450,379
Returns on investment				
Interest received	614	33,044	12,305	45,963
Dividends received	0	433,569	0	433,569
Rent received from investment properties	0	1,168,638	0	1,168,638
	614	1,635,251	12,305	1,648,170
Capital expenditure and capital investment				
Payments to acquire listed investments	0	(6,731,547)	0	(6,731,547)
Proceeds from listed investments sold	0	6,777,576	0	6,777,576
Proceeds from sale of fixed assets	0	5,000	0	5,000
Payments to acquire tangible fixed assets	0	(2,693,825)	(34,371)	(2,728,196)
	0	(2,642,796)	(34,371)	(2,677,167)
Increase/(decrease) in cash	42,508	(1,890,825)	1,269,699	(578,618)
Net incoming/(outgoing) resources after transfers	47,749	(8,265,731)	1,265,772	(6,952,210)
Interest receivable	(614)	(33,044)	(12,305)	(45,963)
Income from listed investments	0	(433,569)	0	(433,569)
Income from investment properties	0	(1,168,638)	0	(1,168,638)
Depreciation	72,669	8,196,951	10,022	8,279,642
(Increase)/decrease in stocks	0	0	4,166	4,166
(Increase)/decrease in debtors	(431,522)	900,856	416,662	885,996
Increase/(decrease) in creditors	374,612	(80,105)	(392,552)	(98,045)
Difference between FRS17 charge and pension payments	(21,000)	0	0	(21,000)
Net cash flow from operating activities	41,894	(883,280)	1,291,765	450,379
Opening net funds	10,059	3,676,385	553,958	4,240,402
Movement in the period being change in cash balances	42,508	(1,890,825)	1,269,699	(578,618)
Closing net funds	52,567	1,785,560	1,823,657	3,661,784

Notes to the Financial Statements

1 Accounting policies

a Basis of accounting

The Financial Statements have been prepared in accordance with the Charities (Accounts and Reports) Regulations 2000 and the Statement of Recommended Practice 'Accounting and Reporting by Charities' issued in March 2005, and with applicable UK accounting standards. These Financial Statements have been drawn up on the historical cost accounting basis except for investment assets, heritage assets and certain operational assets for which the valuation method is described in the Tangible Fixed Assets section below.

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

b Incoming resources

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

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

Legacies and donations receivable for General purposes are credited to the unrestricted element of the Army Prize Money and Legacy Fund (APML) which is used to augment the annual grant (GIA) from the Ministry of Defence which 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 and staff costs relating to the welfare of In-Pensioners .

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

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

c Resources expended

Resources expended are accounted for on the accruals basis.

Expenditure is apportioned to cost categories based on the estimated amount attributable to that activity in the year. Irrecoverable VAT is included with the item of expense to which it relates.

Overhead and other costs not directly attributable to particular activities are apportioned on the basis of management estimates of the amount attributable to that activity in the year by reference to staff time.

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

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

d Tangible fixed assets

Freehold property is stated at valuation on a depreciated replacement cost basis (operational buildings) or market value (investment buildings). Valuations by independent professionally qualified valuers are obtained at five yearly intervals unless there is evidence of material change in the interim. The most recent revaluation took place as at 1 April 2012 and the next full revaluation is planned as at 1 April 2017. 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 annually for the likelihood of material impairments.

i Heritage assets

Since 2001 new heritage assets are capitalised at cost upon acquisition. Heritage assets are capitalised as non-depreciating assets under the terms of FRS30, which prevents operational assets being treated as heritage assets. RHC paintings and artefacts have been revalued and are included as heritage assets.

ii Investment properties

Investment properties are shown at their open market value. Valuations by independent professionally qualified valuers are obtained at five yearly intervals unless there is evidence of material change in the interim. The most recent revaluation took place as at 1 April 2012 and the next full revaluation is planned as at 1 April 2017. No depreciation is charged on investment properties

iii 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.

e Listed investments

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

f Pensions

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

g Taxation

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

h Operating leases

Rentals payable under operating leases are charged in the Statement of Financial Activities on a straight line basis over the lease term.

i Stocks

Stocks are valued at the lower of cost and net realisable value.

2 Donations

	2012				2011	
	Army Prize & Legacy Fund		Subsidiaries		Group Funds	Group Funds
	Unrestricted Funds	Restricted Funds	Unrestricted Funds	Restricted Funds		
	£	£	£	£	£	£
Donations received						
Legacies	181,139	0	0	0	181,139	273,984
Donations and gift aid	153,248	100,000	505,335	1,285,408	2,043,991	1,243,639
	<u>334,387</u>	<u>100,000</u>	<u>505,335</u>	<u>1,285,408</u>	<u>2,225,130</u>	<u>1,517,623</u>

3 Activities for generating funds*Trading Income and Expenditure*

The Hospital has one subsidiary company and three sub-subsidiary companies.

i Royal Hospital Chelsea Appeal Ltd

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

This company wholly owns its trading subsidiaries, Chelsea Pensioner (RH) Ltd and Tricorne Traders Ltd. During the year it also acquired 100 per cent of the shares in RHC Prime Minister Scholars Ltd a new trading company. The new subsidiary did not trade during the year and therefore no account information is disclosed.

ii Chelsea Pensioner (RH) Ltd

The company is limited by shares and is incorporated in England and Wales. Its share capital is wholly owned by Royal Hospital Chelsea Appeal 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.

iii Tricorne Traders Ltd

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

In total the limited companies donated £1,635,574 during the year to the Army Prize Money and Legacy Fund (2011: £2,793,028). This donation is eliminated on consolidation of the Group accounts.

A summary of the RHC Appeal accounts is below:

Royal Hospital Chelsea Appeal Ltd – Summary of Consolidated Accounts
Consolidated Statement of Financial Activities for the year ending 31 March

	Unrestricted Funds £	2012 Restricted Funds £	Group Funds £	2011 Group Funds £
Voluntary income	505,335	1,285,408	1,790,743	673,471
Activities for generating funds	2,456,319	0	2,456,319	2,062,616
Investment income	12,305	0	12,305	14,624
Total incoming resources	2,973,959	1,285,408	4,259,367	2,750,711
Cost of generating voluntary income	126,569	0	126,569	155,452
Fundraising trading	1,195,612	0	1,195,612	975,689
Charitable activities	435,574	1,200,000	1,635,574	2,793,162
Governance	25,818	0	25,818	27,498
Depreciation	10,022	0	10,022	8,738
Total resources expended	1,793,595	1,200,000	2,993,595	3,960,539
Net incoming/(outgoing) resources before and after taxation	1,180,364	85,408	1,265,772	(1,209,828)
Balance at the beginning of the year	101,937	256	102,193	1,312,021
Balance at the end of the year	1,282,301	85,664	1,367,965	102,193

Consolidated Balance Sheet as at 31 March

	Unrestricted Funds £	2012 Restricted Funds £	Group Funds £	2011 Group Funds £
Fixed assets				
Tangible fixed assets	88,006	0	88,006	63,657
Current assets				
Stock	154,766	0	154,766	158,932
Debtors	148,411	0	148,411	565,073
Cash at bank and in hand	1,737,993	85,664	1,823,657	553,958
Total current assets	2,041,170	85,664	2,126,834	1,277,963
Current liabilities				
Creditors falling due within one year	(846,875)	0	(846,875)	(1,239,427)
Net current assets	1,194,295	85,664	1,279,959	38,536
Net assets	1,282,301	85,664	1,367,965	102,193
Reserves				
Unrestricted funds	1,282,301	0	1,282,301	101,937
Restricted funds	0	85,664	85,664	256
Total reserves	1,282,301	85,664	1,367,965	102,193

Expenditure includes donations from RHC Appeal Ltd to the Royal Hospital. On consolidation to the Group accounts expenditure is reduced by £1,635,574 (2011: £2,793,028) in respect of intercompany donations.

Chelsea Pensioner (RH) Ltd – Trading Results**Profit and Loss account for the year ending 31 March**

	2012 £	2011 £
Turnover	2,089,516	1,973,708
Cost of sales	(110,504)	(86,897)
Gross profit	1,979,012	1,886,811
Administrative expenses	(795,721)	(844,365)
Other operating charges	(18,567)	(13,437)
Operating profit	1,164,724	1,029,009
Interest receivable and similar income	7,169	6,751
Qualifying donation under Gift Aid	(1,161,414)	(1,033,443)
Profit on ordinary activities before taxation	10,479	2,317
Tax on profit of ordinary activities	0	0
Profit on ordinary activities after taxation	10,479	2,317
Profit brought forward	2,317	0
Profit carried forward	12,796	2,317

Tricorne Traders Ltd – Trading Results**Profit and Loss account for the year ending 31 March**

	2012 £	2011 £
Turnover	366,803	92,233
Cost of sales	(229,681)	(43,637)
Gross profit	137,122	48,596
Administrative expenses	(71,183)	(22,402)
Other operating charges	0	0
Operating profit	65,939	26,194
Interest receivable and similar income	0	0
Qualifying donation under Gift Aid	(56,125)	(26,194)
Profit on ordinary activities before taxation	9,814	0
Tax on profit of ordinary activities	0	0
Profit on ordinary activities after taxation	9,814	0
Profit brought forward	0	0
Profit carried forward	9,814	0

The Prince of Wales Hall

The Prince of Wales Hall which was a welfare facility ceased trading in September 2011 due to the opening of the café run by Tricorne Traders Ltd.

	2012 £	2011 £
Turnover	26,035	41,153
Cost of sales	(32,243)	(45,415)
Net profit/(loss)	(6,208)	(4,262)

4 Investment Income

	2012				2011
	Grant In Aid Fund Unrestricted Funds £	Army Prize Money & Legacy Fund Unrestricted Funds £	Hospital Unrestricted Funds £	Group Unrestricted Funds £	Group Unrestricted Funds £
Dividends for the year	0	433,569	433,569	433,569	378,912
Rental income from property	0	1,168,638	1,168,638	1,168,638	1,574,176
Bank interest received	614	33,044	33,658	45,963	38,678
Total	614	1,635,251	1,635,865	1,648,170	1,991,766

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 under-leases to sub tenants. Under the Leasehold Reform Housing and Urban Development Act 1993, tenants were given the right to extend their leases by ninety years. The Act specifies that a premium is payable for the granting of such extensions and gives details of how this is to be calculated. The amount of £1,168,638 (2011: £1,574,176) shown as income from investment properties includes £879,083 paid to the Hospital in respect of lease extension premiums (2011: £1,339,449). Bank interest is higher than last year due to improved interest rates. Dividend income has increased to £433,569 from £378,912 in 2011.

5 Income from Charitable Activities

Grant in aid	11,001,000	0	11,001,000	11,001,000	10,838,000
Total	11,001,000	0	11,001,000	11,001,000	10,838,000

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

6 Other Incoming Resources

	2012				2011
	Grant In Aid Fund Unrestricted Funds £	Army Prize Money & Legacy Fund Unrestricted Funds £	Hospital Unrestricted Funds £	Group Unrestricted Funds £	Group Unrestricted Funds £
Staff accommodation charges	201,983	0	201,983	201,983	213,447
Family practice	43,339	0	43,339	43,339	22,143
Food recoveries	20,440	0	20,440	20,440	32,549
Events recoveries	0	9,090	9,090	9,090	31,901
Pension contributions	115,006	0	115,006	115,006	115,006
Other income	41,437	45,664	87,101	87,101	70,643
Total	422,205	54,754	476,959	476,959	485,689

Pension contributions represent income from the NHS in respect of increased employer's pension contributions for staff in the National Health Service Superannuation Scheme. Food recoveries has fallen due to the establishment of Tricorne Traders, which now purchases and sells all food in the café and for functions where RHC Catering is used. Events recoveries reflect costs billed directly for entitled events.

7 Costs of generating voluntary income

	2012				2011
	Grant In Aid Fund Unrestricted Funds £	Army Prize Money & Legacy Fund Unrestricted Funds £	Hospital Unrestricted Funds £	Group Unrestricted Funds £	Group Unrestricted Funds £
Staff costs	0	47,390	47,390	47,390	101,177
Support and training	0	650	650	650	0
Allocation of support costs from other areas	0	1,515,046	1,515,046	1,515,046	1,289,167
Other costs	0	(129)	(129)	126,440	165,468
Total	0	1,562,957	1,562,957	1,689,526	1,555,812

These costs were incurred within the Development Directorate. Staff costs within the RHC Appeal Ltd consolidated accounts are not shown separately.

8 Allocation of Support, Central Costs and Depreciation

	2012				2011
	Management & Facilities £	Human Resources £	Information Technology £	Charged Direct £	Group Costs £
Grant in aid funding – Unrestricted					
Infirmary and nursing	146,597	182,372	132,171	17,426	478,566
Welfare and ceremonial	139,693	23,273	78,476	32,316	273,758
Facilities Management	144,545	178,476	49,564	6,649	379,234
Governance	464,191	4,481	28,756	0	497,428
	<u>895,026</u>	<u>388,602</u>	<u>288,967</u>	<u>56,391</u>	<u>1,628,986</u>
					1,146,036
Army Prize Money & Legacy Fund – Unrestricted					
Infirmary and nursing	40,100	114,179	17,867	1,965,629	2,137,775
Welfare and ceremonial	42,401	13,093	10,608	3,645,184	3,711,286
Facilities Management	42,688	113,653	6,700	750,021	913,062
Cost of generating funds	446,598	35,260	65,643	967,545	1,515,046
Governance	520,992	606	3,887	0	525,485
	<u>1,092,779</u>	<u>276,791</u>	<u>104,705</u>	<u>7,328,379</u>	<u>8,802,654</u>
					7,933,028

Support costs are allocated across the areas of activity on the basis of staff time while depreciation is allocated on the basis of space occupied.

9 Governance Costs

	2012			2011
	Grant In Aid Fund £	Army Prize Money & Legacy Fund £	Hospital Costs £	Group Costs £
Audit fees*	45,107	28,377	73,484	73,484
Surveyors' fees	0	63,779	63,779	63,779
Accountancy fees	3,360	0	3,360	3,360
Consultancy fees	14,268	5,880	20,148	20,148
Legal fees	59	8,111	8,170	8,170
Allocation of support costs from other areas	497,428	525,485	1,022,913	1,022,913
Limited company subsidiaries	0	0	0	25,818
Total	<u>560,222</u>	<u>631,632</u>	<u>1,191,854</u>	<u>1,217,672</u>
				972,630

* £33,000 relates to NAO audit fee charge for the year ended 31 March 2012.

10 Analysis of Total Resources Expended

	Staff	2012 Other Costs	Depreciation	Hospital Total	2011 Hospital Total
	£	£	£	£	£
Cost of Generating Funds					
Army Prize Money & Legacy Fund					
Costs of generating voluntary income	48,040	423,779	1,091,138	1,562,957	1,400,360
Trading expenditure	0	32,243	0	32,243	45,415
Investment management costs	0	61,767	0	61,767	50,399
Total cost of generating funds	48,040	517,789	1,091,138	1,656,967	1,496,174
Charitable Activities					
Grant In Aid Fund					
Infirmary nursing and medical	2,712,839	537,625	18,504	3,268,968	3,145,811
Welfare and ceremonial	113,716	281,538	32,668	427,922	847,506
Facilities management	3,076,278	4,034,947	7,733	7,118,958	6,555,590
	5,902,833	4,854,110	58,905	10,815,848	10,548,907
Army Prize Money & Legacy Fund					
Infirmary nursing and medical	0	52,105	2,087,184	2,139,289	1,953,092
Welfare and ceremonial	0	54,870	3,684,773	3,739,643	3,521,615
Facilities management	0	2,960,373	872,208	3,832,581	2,308,026
	0	3,067,348	6,644,165	9,711,513	7,782,733
Army Prize Money & Legacy Fund – Restricted					
Welfare and ceremonial	0	51,620	0	51,620	99,355
Facilities management	0	0	0	0	2,595
	0	51,620	0	51,620	101,950
Total charitable expenditure	5,902,833	7,973,078	6,703,070	20,578,981	18,433,590
Governance costs					
Grant In Aid Fund	0	556,046	4,176	560,222	421,065
Army Prize & Legacy Fund	0	160,396	471,236	631,632	524,038
	0	716,442	475,412	1,191,854	945,103
Total resources expended	5,950,873	9,207,309	8,269,620	23,427,802	20,874,867

11 Staff Costs and Numbers

	2012			2011
	Grant In Aid Fund £	Army Prize Money & Legacy Fund £	Hospital Total £	Hospital Total £
Staff costs				
Salaries and wages	5,170,852	72,390	5,243,242	5,126,494
Social security costs	389,441	2,202	391,643	369,485
Pension costs	819,457	4,898	824,355	790,216
Sub-total	6,379,750	79,490	6,459,240	6,286,195
Casual and agency pay	414,894	336	415,230	692,984
In-Pensioner pay	93,013	0	93,013	89,048
Total	6,887,657	79,826	6,967,483	7,068,227
Staff costs by department				
Care services	2,673,476	0	2,673,476	2,675,298
Welfare and ceremonial	172,188	0	172,188	591,765
Facilities management	2,957,499	0	2,957,499	2,918,869
Management and administration	1,084,494	32,436	1,116,930	781,118
Development directorate	0	47,390	47,390	101,177
Total	6,887,657	79,826	6,967,483	7,068,227

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:

	2012			2011
	Part Time	Full Time	Total	Total
Staff numbers by department				
Care services	4	91	95	71
Welfare and ceremonial	0	14	14	14
Facilities management	9	101	110	111
Management and administration	4	16	20	18
Development directorate	0	12	12	13
Total	17	234	251	227

Higher Paid Employees

Including the Governor and Lieutenant Governor the number of employees whose remuneration was over £60,000 in 2011-12 (excluding pension contributions) was as follows:

Band	2012	2011
£60,000–£69,999	4	4
£70,000–£79,999	1	1
£80,000–£89,999	0	0
£90,000–£99,999	1	0

Four of the above staff contribute to the PCSPS defined benefits scheme.

Commissioners' emoluments

None of the Commissioners receive any remuneration for acting as Commissioners. Travel expenses of £1,208 (2011: £1,145) were claimed during the year by three Commissioners. The Governor and Lieutenant Governor are Commissioners, and receive salaries in return for their work as executives of the Royal Hospital Chelsea. 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 23 – Unfunded Scheme. This scheme is closed to new members.

The Secretary to the Board of Commissioners is not a Trustee, but has agreed to a voluntary disclosure of his emoluments.

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

	Actual salary	Annualised salary	Real increase in pension at 60 during the year	Total accrued pension at 60 at the year end	Cash equivalent transfer value at start date	Cash equivalent transfer value at end date	Real increase in cash equivalent transfer value
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
General Sir Redmond Watt – Governor	45-50	60-65	0	0	0	0	0
Major General APN Currie – Lieutenant Governor & Chief Executive	70-75	70-75	0-2.5	5-10	119	147	21
Paul Hatt Esq – Secretary to the Board of Commissioners	60-65	60-65	0-2.5	0-5	25	46	18

12 Movement on Reserves

The movement on reserves for the year is broken down as follows:

	Balance as at 1 April 2011 £	Incoming Resources £	Resources Expended £	Gains / (Losses) £	Transfers £	Prior year Adjustment £	Balance as at 31 March 2012 £
Grant in Aid	(401,473)	11,423,819	(11,376,070)	(14,000)	0	0	(367,724)
Army Prize Money and Legacy Fund – general reserve	258,406,530	2,050,427	(12,000,112)	(186,244)	1,734,402	(36,012)	249,968,991
Ingram Trust	2,358	0	0	0	0	0	2,358
Drouly Trust	452,979	0	0	0	0	0	452,979
Ranelagh & de la Fontaine Trust Capital	7,248	0	0	0	0	0	7,248
Revaluation Reserve	344,677,569	0	0	(27,820,153)	0	0	316,857,416
Cadogan Donation	15,439	100,000	(51,620)	0	(98,828)	36,012	1,003
RHC Appeal Group Ltd	102,193	4,259,367	(1,358,021)	0	(1,635,574)	0	1,367,965
	603,262,843	17,833,613	(24,785,823)	(28,020,397)	0	0	568,290,236

13 Tangible Fixed Assets

Heritage & Non heritage

	Assets in the course of construction £	Land and buildings Dwelling £	Land and buildings Non dwelling £	Plant, machinery & equipment £	Vehicles £	Exhibits £	Group Total £
Cost or valuation							
At 1 April 2011	1,652,401	452,034,431	140,278,014	2,848,473	153,046	192,664	597,159,029
Additional at cost	1,649,209	0	0	1,079,401	0	0	2,728,610
Revaluation	0	(54,935,840)	(61,502,659)	0	0	15,589,851	(100,848,648)
Disposals	0	0	0	(342,297)	0	0	(342,297)
At 31 March 2012	3,301,610	397,098,591	78,775,355	3,585,577	153,046	15,782,515	498,696,694
Depreciation							
At 1 April 2011	0	19,578,605	9,441,788	1,089,875	61,842	0	30,172,110
Charge for the year	0	4,719,435	2,737,198	199,396	10,451	0	7,666,480
Revaluation	0	(24,060,073)	(11,764,836)	0	0	0	(35,824,909)
Disposals	0	0	0	(331,596)	0	0	(331,596)
At 31 March 2012	0	237,967	414,150	957,675	72,293	0	1,682,085
Net book value							
At 1 April 2011	1,652,401	432,455,826	130,836,226	1,758,598	91,204	192,664	566,986,919
At 31 March 2012	3,301,610	396,860,624	78,361,205	2,627,902	80,753	15,782,515	497,014,609

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

Grant in Aid Fund	0	0	0	393,629	34,659	0	428,288
Army Prize Money & Legacy Fund	3,301,610	396,860,624	78,341,891	2,165,581	46,094	15,782,515	496,498,315
Subsidiaries	0	0	19,314	68,692	0	0	88,006
	3,301,610	396,860,624	78,361,205	2,627,902	80,753	15,782,515	497,014,609

- i Following the definition of a heritage asset in FRS30 heritage assets now contain only Royal Avenue and exhibits.
- ii Art and artefacts have been valued and are included as a heritage asset.
- iii Operational land and buildings were revalued as at 31 March at depreciated replacement cost.
- iv Accumulated depreciation based on the former value was transferred to the revaluation reserve.
- v In the revaluation exercise some assets were reduced in value below their historic cost to a total value of £613,162. This has been shown as a reduction in the cost of the asset in the balance sheet and has been changed to the SOFA as depreciation.

Heritage

	Assets in the course of construction	Land and buildings Dwelling	Land and buildings Non dwelling	Plant, machinery & equipment	Vehicles	Exhibits	Group Total
	£	£	£	£	£	£	£
Cost or valuation							
At 1 April 2011	0	0	210,000	0	0	192,664	402,664
Additional at cost	0	0	0	0	0	0	0
Revaluation	0	0	30,000	0	0	15,589,851	15,619,851
Disposals	0	0	0	0	0	0	0
At 31 March 2012	0	0	240,000	0	0	15,782,515	16,022,515
Depreciation							
At 1 April 2011	0	0	0	0	0	0	0
Charge for the year	0	0	0	0	0	0	0
Disposals	0	0	0	0	0	0	0
At 31 March 2012	0	0	0	0	0	0	0
Net book value							
At 1 April 2011	0	0	210,000	0	0	192,664	402,664
At 31 March 2012	0	0	240,000	0	0	15,782,515	16,022,515

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 & Legacy Fund	0	0	240,000	0	0	15,782,515	16,022,515
Subsidiaries	0	0	0	0	0	0	0
	0	0	240,000	0	0	15,782,515	16,022,515

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

Non heritage

	Assets in the course of construction	Land and buildings Dwelling	Land and buildings Non dwelling	Plant, machinery & equipment	Vehicles	Exhibits	Group Total
	£	£	£	£	£	£	£
Cost or valuation							
At 1 April 2011	1,652,401	452,034,431	140,068,014	2,848,473	153,046	0	596,756,365
Additional at cost	1,649,209	0	0	1,079,401	0	0	2,728,610
Revaluation	0	(54,935,840)	(61,532,659)	0	0	0	(116,468,499)
Disposals	0	0	0	(342,297)	0	0	(342,297)
At 31 March 2012	3,301,610	397,098,591	78,535,355	3,585,577	153,046	0	482,674,179
Depreciation							
At 1 April 2011	0	19,578,605	9,441,788	1,089,875	61,842	0	30,172,110
Charge for the year	0	4,719,435	2,737,198	199,396	10,451	0	7,666,480
Revaluation	0	(24,060,073)	(11,764,836)	0	0	0	(35,824,909)
Disposals	0	0	0	(331,596)	0	0	(331,596)
At 31 March 2012	0	237,967	414,150	957,675	72,293	0	1,682,085
Net book value							
At 1 April 2011	1,652,401	432,455,826	130,626,226	1,758,598	91,204	0	566,584,255
At 31 March 2012	3,301,610	396,860,624	78,121,205	2,627,902	80,753	0	480,992,094

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

Grant in Aid Fund	0	0	0	393,629	34,659	0	428,288
Army Prize Money & Legacy Fund	3,301,610	396,860,624	78,101,891	2,165,581	46,094	0	480,475,800
Subsidiaries	0	0	19,314	68,692	0	0	88,006
	3,301,610	396,860,624	78,121,205	2,627,902	80,753	0	480,992,094

i Operational land and buildings were revalued as at 31 March at depreciated replacement cost.

ii Accumulated depreciation based on the former value was transferred to the revaluation reserve.

In March 2012 Savills were requested to undertake the quinquennial revaluation of the Royal Hospital Chelsea estate. Savills were instructed to provide their opinions of value on the following basis:

a *The current Market Value of the Investment Estate.* The Investment Estate is defined as all the land and buildings that are currently let for investment purposes on long term leases or short term lettings and licences. The properties included as investment properties are as follows:

- i Chelsea Court
- ii Embankment Gardens
- iii Wellington Buildings and Chelsea Gardens
- iv Burtons Court
- v South Grounds
- vi Ranelagh Gardens
- vii Royal Avenue

b *The National Army Museum* on Royal Hospital Road is also let but this is for a term of 999 years from 30 November 1967 at a fixed ground rent of £1.05 per annum. It has been agreed to exclude this from the valuation.

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

d The valuations exclude any value attributable to plant and machinery but include those items which provide essential services such as central heating, plumbing and wiring.

e The Royal Hospital Chelsea's heritage assets are principally composed of art and artefacts and it has a holding of 782 such exhibits with a value of £15,782,515. By value the principal items are paintings, prints, drawings and photographs, antique furniture, sculpture and silver and gold. The collection also includes arms and armour, books, clocks, medals, the Royal Hospital Mace and a stained glass window. Additionally there is one parcel of land known as Royal Avenue, which also is classed as a heritage asset. This represents the original approach road to the Royal Hospital from the Kings Road and gives a view of the Royal Hospital as intended by Sir Christopher Wren. It has a value of £240,000.

f Heritage assets are accounted for at market value with the exception of three exhibits which are accounted for at cost. The three items were all acquired in recent years and the cost price is still a good measure of value. The exhibits were revalued as at June 2011 by Gurr-Johns and the total value of those held at valuation is £15,733,316 (2011: nil) and those held at cost is £49,199 (2011: £192,664). The reduction in value of those held at cost arises because some assets previously held at cost were included in the valuation. The Exhibits are deemed to have indeterminate lives and the Commissioners consider it inappropriate to charge depreciation. Royal Avenue was revalued as at March 2012 by Savills and has a value of £240,000 (2011: £210,000). The revaluation of the exhibits took place to allow all exhibits to be reported under FRS30. The revaluation of Royal Avenue took place as part of the quinquennial revaluation of the Royal Hospital Chelsea's estate.

g The Royal Hospital does not have a policy of actively acquiring new heritage assets, although a small number have been added e.g. a new stained glass window for All Saints Chapel. It ensures that the heritage assets are properly recorded and kept in good condition and does not dispose of them. Many of the Exhibits are accessible to the public visiting the site either in guided parties or individually.

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

	2012	2011	2010
	£	£	£
Heritage asset purchase transactions			
Altar Plate All Saints Chapel	0	0	64,660
Calligraphic Panel	0	0	7,600
Stained Glass Window	0	41,599	0
	0	41,599	72,260

14 Listed Investments

	31 March 2012	31 March 2011
	£	£
Market value at 1 April 2011	11,749,123	11,165,895
Additions at cost	6,731,547	3,384,986
Cost of investments sold	(6,099,568)	(3,406,880)
Unrealised revaluation gain/(loss)	(858,551)	605,122
Market value at 31 March 2012	<u>11,522,551</u>	<u>11,749,123</u>
Historical cost at the beginning of the year	9,785,888	9,807,782
Historical cost as at the end of the year	10,417,862	9,785,888
	Market Value	Book Cost
	£	£
Geographic distribution of investments as at 31 March 2012		
UK Bonds	2,915,350	2,693,837
Non-UK Bonds	568,381	558,838
UK Equities	4,672,562	3,937,768
Overseas Equities	3,106,763	2,899,522
Property	37,495	105,897
Cash Fund	222,000	222,000
Total	<u>11,522,551</u>	<u>10,417,862</u>

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

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

15 Investment property

	31 March 2012	31 March 2011
	£	£
Freehold land and buildings at valuation	58,500,000	21,910,000

The Hospital's freehold investment property was valued by Savills as at March 2012 on the open market value basis, in accordance with RICS guidance.

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

16 Stocks

	2012			2011	
	Grant In Aid Fund £	Army Prize Money & Legacy Fund £	Hospital Total £	Group Total £	Group Total £
Trading stocks	0	0	0	154,766	158,932
Total	0	0	0	154,766	158,932

17 Debtors

	2012			2011	
	Grant In Aid Fund £	Army Prize Money & Legacy Fund £	Hospital Total £	Group Total £	Group Total £
Trade and sundry debtors	14,908	75,404	90,312	195,824	587,843
Prepayments	76,556	4,941	81,497	114,776	83,296
Accrued income	0	19,200	19,200	19,200	87,158
Total	91,464	99,545	191,009	329,800	758,297

18 Cash at Bank and in Hand

	2012			2011	
	Grant In Aid Fund £	Army Prize Money & Legacy Fund £	Hospital Total £	Group Total £	Group Total £
Term deposits	0	1,300,000	1,300,000	1,300,000	2,160,000
Other accounts	52,468	484,734	537,202	2,356,626	2,071,736
Cash in hand	99	826	925	5,158	8,666
Total	52,567	1,785,560	1,838,127	3,661,784	4,240,402

19 Creditors: amounts falling due within one year

	2012			2011	
	Grant In Aid Fund £	Army Prize Money & Legacy Fund £	Hospital Total £	Group Total £	Group Total £
Sundry creditors	47,520	99,229	146,749	146,749	126,632
Accrued charges	685,925	342,338	1,028,263	1,083,801	783,903
Taxation creditors	141,023	0	141,023	161,921	155,518
Deferred income	0	0	0	693,641	704,830
Finance lease	0	0	0	0	38,740
Other creditors	90,415	148,525	238,940	276,044	251,195
Total	964,883	590,092	1,554,975	2,362,156	2,060,818

20 Creditors: amounts falling due after one year

	2012				2011
	Grant In Aid Fund £	Army Prize Money & Legacy Fund £	Hospital Total £	Group Total £	Group Total £
Chapel music foundation	0	79,982	79,982	79,982	0
Chapel fund	0	14,136	14,136	14,136	36,012
Advance funeral payments	0	12,000	12,000	12,000	12,000
Total	0	106,118	106,118	106,118	48,012

21 Contingent Liabilities

There are no contingent liabilities.

22 Related party Transactions

Any related party transactions between the Hospital and its subsidiary companies are covered under Note 3.

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

23 Pensions

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

Principal Civil Service Pension Scheme (PCSPS)

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

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

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 2012, employers' contributions of £658,833 were payable to the PCSPS (2011: £660,886) at one of four rates in the range of 16.7 per cent to 24.3 per cent of pensionable pay, based on salary bands. Employer contributions are to be reviewed every four years following a full scheme valuation by the Government Actuary. Rates will remain the same next year. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

NHS Pension Scheme (NHSPS)

The Hospital has 71 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 last formal actuarial valuation undertaken for the NHS Pension Scheme was completed as at 31 March 2004 (published in December 2007). Consequently, a formal actuarial valuation would have been due to have been completed as at 31 March 2008. However, formal actuarial valuations for unfunded public service pension schemes have been suspended by HM Treasury on value for money grounds while consideration is given to recent changes to public service pensions and while future scheme terms are developed as part of the reforms to public service pension provision. The primary purpose of the formal actuarial valuations is to set employer and employee contribution rates, and these are currently being determined under the new scheme design. Between valuations, the Government Actuary provides an update of the scheme's liabilities on an annual basis. The latest assessment of the liabilities of the scheme is contained in the Scheme Actuary report, which forms part of the NHS Pension Scheme (England and Wales) Resource Account, published annually. These accounts can be viewed at the NHS Pensions Agency website at www.nhsbsa.nhs.uk/pensions. This is a statutory, defined benefit scheme, the provisions of which are contained in the NHS Pension Scheme Regulations 1995 and 2008. Under these regulations the 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 2012, employers' contributions of £217,388 were payable to the NHS Pension Scheme (2011: £200,399). These contributions are charged to operating expenses as and when they become due.

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

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

Unfunded Scheme

Former Governors, Lieutenant Governors and Captains of Invalids are members of an unfunded defined benefit scheme. The scheme has 14 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 £43,000 (2011: £42,000).

Financial Reporting Standard 17 (FRS17) – Retirement Benefits

The latest FRS17 valuation of the liabilities in respect of the unfunded pension entitlements was carried out as at 31 March 2012, by an independent qualified actuary, using the key FRS17 assumptions set out in the following table, which reflect the nature of the liabilities. These pensions are all currently in payment and increase with price inflation (measured using the Consumer Prices Index).

	31 March 2012	31 March 2011
Assumptions		
Price inflation / pension increase per annum	2.1%	2.7%
Discount rate per annum	4.3%	5.3 %

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 (2011: 28 years).

The following table sets out as at 31 March 2012 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.

Balance sheet as at 31 March

	2012	2011	2010	2009	2008
	£	£	£	£	£
Defined pension scheme liability	425,000	432,000	474,000	423,000	466,000

The gross pension liability resides within the Royal Hospital Chelsea's unrestricted funds. Its only impact on the resources available for general application are, the annual payments to the pensioners of £43,000 for 2012 (2011: £42,000).

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

	Year to 31 March 2012	Year to 31 March 2011
	£	£
Gross pension liability at year end	432,000	474,000
Pensions paid	(43,000)	(42,000)
Interest cost	22,000	0
Actuarial (gain)/loss on defined benefit pension scheme	14,000	0
Gross pension liability at year end	425,000	432,000

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

	Year to 31 March 2012	Year to 31 March 2011
	£	£
Interest on gross pension liability	22,000	24,000
Past service credit	0	(24,000)
Total pension expense	22,000	0

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 2012 is a loss of £14,000 (2011: nil). The cumulative amount recognised in the 'gains and losses' categories of the SOFA since 2003 [as required by paragraph 95 of FRS17] is a loss of £119,000 (2011: loss of £105,000).

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

Balance sheet as at 31 March

	2012	2011	2010	2009	2008
	£	£	£	£	£
Experience gains/(losses) on liabilities	(3,000)	(4,000)	(4,000)	43,000	(9,000)
Percentage of the present value of liabilities	-1 %	-1 %	-1%	10 %	-2 %

24 Finance Leases

	2012 £	2011 £
Due within 1 year	0	38,740
Due in 2 to 5 years	0	0
Total	0	38,740

25 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 2012 payments of £60,371 (2011: £59,189) were made in respect of operating leases.

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

	2012		2011	
	Land & Buildings £	Other £	Land & Buildings £	Other £
Operating leases which expire:				
Within 1 year	0	4,409	0	0
In 2 to 5 years	0	56,252	61,501	0

A new contract with JLA was entered into in February 2012 for the 5 year period ending April 2016. The contract is for the operation of the laundry at RHC.

26 Capital Commitments

	2012 £	2011 £
Authorised and contracted	3,879,645	3,536,243

The sum for 2012 is predominantly for work committed on the Long Wards contract being commitments, entered into in November 2011, for work to be done on the NE Pavilion and East Wing. Over the next five years capital commitments relating to the Long Wards, NE Pavilion, East & West Wings are expected to be in the region of £16,592,392.

27 Provisions

	Total Funds 2012 £	Total Funds 2011 £
Opening balance	0	(33,426)
Used in the year	0	21,255
Reversed in the year	0	12,171
Closing balance	0	0

28 Losses and Write Offs

In the course of the year an overpayment occurred in the closed unfunded pension scheme amounting to £2,205. This was due to a computational error. Given the age of the individuals involved the decision was taken not to recover this amount.

29 Fund Accounting

Unrestricted Funds

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

Restricted Funds

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

Designated Funds

There are at present no designated funds within the Group.

30 Derivatives and other Financial Instruments

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

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

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

Interest Rate Risk

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

Currency Risk

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

Market Price Risk

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

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

31 Post Balance Sheet Events

Offers for the sale of Gordon House were invited and received. Through marketing by our agent (Savills) the Commissioners have now sold Gordon House on an initial 20 year lease. The contract was completed on 1 October 2012 at a value of £48,890,000 over the next three years with the intention that further income will be received. These funds are earmarked for capital development in the Royal Hospital.

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