

Presented pursuant to Chelsea Hospital Act 1876 (Acts 39 & 40 Vict.), c. 14, s.1.

Royal Hospital Chelsea Account 2005-2006

ORDERED BY THE HOUSE OF COMMONS TO BE PRINTED 9 OCTOBER 2006

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Officers and Commissioners

Chairman of the Board of Commissioners

HM Paymaster General

Ex-officio Commissioners

HM Paymaster General
Minister of State for the Armed Forces
Parliamentary Under-Secretary of State for Defence
The Governor, Royal Hospital Chelsea
Director General of Army Medical Services
Assistant Chief of the General Staff
Command Secretary (Adjutant General)
Lieutenant Governor, Royal Hospital, Chelsea

Specially appointed Commissioners

Mrs R Corben
IW Frazer FCA
Mr M Gainsborough
The Rt Hon Lord Glenarthur DL
MD Drury CBE FSA
Mr R Hunting
The Hon David McAlpine
Countess Cadogan MVO
G Flather OBE QC (from 1 May 2005)

Secretary and Accounting Officer

JM Legge CB CMG

Registered address

Royal Hospital Chelsea
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Web site: www.chelsea-pensioners.org.uk
Telephone: 0207 881 5200

Auditor

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Solicitors

Taylor Wessing Carmelite
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London EC4Y 0DX

Investment managers

Newton Investment Management Limited
(appointed 1 February 2006)
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London EC4V 4LA

Property managers

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20 Grosvenor Hill
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Bankers

Barclays Bank plc
Knightsbridge Business Centre
PO Box 32014
London NW1 2ZG

Works consultants

Capita Symonds Limited
61-71 Victoria Street
Westminster
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Annual Report of the Commissioners

Introduction

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

Governing documents and charitable objects

The statutory authority for the Royal Hospital is founded on Letters Patent from the Crown, which vests responsibility for its management in a Board of Commissioners. The current Letters Patent were issued on 23 November 2003. The Paymaster General is formally the Treasurer of the funds and Chairman of the Board of Commissioners who administer them, although in practice the Governor usually takes the chair.

Whilst care of the In-Pensioners remains the Royal Hospital’s principal task, it is also responsible for 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, e.g. subsidised holidays, a regular Battlefield tour, television services, etc.

The Royal Hospital provides 24-hour cover for 365 days of the year. The staff of the Royal Hospital number 249 full and part-time of whom 87 are medical and nursing staff.

An annual Grant in Aid from the Ministry of Defence provides for the maintenance of the Royal Hospital buildings and for meeting the cost of fuel and lighting, food, furniture, clothing, medical care for In-Pensioners, staff costs and certain payments to the In-Pensioners. In exchange, the In-Pensioners surrender their Army long service and/or their disability pensions when they are admitted to the Royal Hospital. The use to which the Grant in Aid fund is put is set out in detail in the notes to the Financial Statements.

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.

On taking up their appointment, each Commissioner is provided with a pack describing the Royal Hospital, its structure, and how it is run, and the responsibilities of the Commissioners.

Organisational structure and decision making

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

Monitoring of performance

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

Accounting and reporting responsibilities

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

In preparing the accounts the Hospital is required to

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

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

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

Employees

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

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

Risk management

The Royal Hospital maintains a comprehensive risk register which is updated every six months and reviewed by the Audit Committee. It aims to cover a wide range of topics including fire, legal, health and safety, financial, mismanagement, and terrorism. 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's ability to start work on the new infirmary was held up by objections by a number of local interest groups. This has affected the external design and has added several million pounds to the estimated cost.

The Royal Hospital is also 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.

Relationship with subsidiaries

The Commissioners form a majority of directors of the Boards of Chelsea Pensioner (RH) Limited, the Hospital's trading arm, and Royal Hospital Chelsea Appeal Limited, its holding company.

Aims, objectives and activities

The purpose of the Royal Hospital remains the same as that intended by its Royal Founder King Charles II – to provide a happy retirement home for the nation's former soldiers who are admitted as In-Pensioners. Its long term objectives are set out in the Royal Hospital Corporate Plan and these are further amplified in the Royal Hospital Chelsea Management Plan.

In addition to the continuing care of the In-Pensioners, the Royal Hospital is planning a major modernisation programme including the building of a new infirmary and modernisation of the remaining living accommodation. The funds to pay for this are being raised through the Chelsea Pensioners' Appeal.

Principal activities of the year

Planning permission was granted on 8 June 2005 after some delays due to a dispute over the external design. This enabled work to go ahead in planning the new infirmary, and reaching an agreed budget for it. Demolition work on the obsolete 1960s Infirmary started on 22 October 2005, and this was completed by the end of February 2006. In the meantime, Infirmary Residents have been looked after either in the temporary infirmary or in the Long Wards with nursing assistance as required.

Volunteers

The Royal Hospital relies greatly on help from volunteers. Many are private individuals who visit the Infirmary, take In-Pensioners out for trips, and assist in accompanying In-Pensioners when they go to neighbouring hospitals. The Prince of Wales Hall tea shop is staffed by volunteers from the British Red Cross who provide an invaluable service. On 4 November 2005 a new friends' organisation called the Caroleans was launched with a view to assisting the Royal Hospital and its Pensioners. 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

■ Administration

During the year the administration department carried out central filing, postal and distribution, central ordering of stationery, control of the Souvenir Shop and booking of the recreational facilities. It is the interface with the local authority for property matters. It also processes applications for admission of In-Pensioners. The Head of Administration also maintains the Risk Register.

■ Chaplain

The Chaplain provides spiritual services to the Royal Hospital. The Chapel is an important venue for Sunday and weekday services, and its professional choir provides music for these and special occasions including memorial services. The Chapel is the focal point for Regimental Association services throughout the year as well as the annual RHC Concert Series held in October and November.

■ Finance

The finance department provides accountancy services for all Royal Hospital funds as well as company secretarial support for its limited companies. It operates the Royal Hospital's payrolls. The department receives all cash and makes all payments to suppliers. Significant progress has been made during the year in implementing a new fixed asset accounting system.

■ Personnel and ICT

Notable achievements during the year for the Personnel and ICT department have been the implementation of a redesigned pay and grading structure, a new e-mail archiving system, the opening of a new cyber-café for the In-Pensioners allowing them access to the internet, and the successful upgrade of network hardware and software including the EMIS system used by the medical staff.

■ Adjutant

The Adjutant's department deals with the daily welfare and administration of the Chelsea Pensioners. It also runs the In-Pensioners' Club and the Prince of Wales Hall. During the year In-Pensioner levels have averaged 296 against a total capacity of 328. The Adjutant's department is responsible for the Founder's Day parade, controls the number of requests from external organisations for visits by In-Pensioners and provides contingents of Chelsea Pensioners for the Royal British Legion Remembrance Day Ceremony, the Edinburgh Military Tattoo and countless other national parades, regimental functions and events.

■ Outpatients

The Outpatients department provides 'family practice' facilities for the In-Pensioners and resident staff as well as full time medical cover for the Infirmary. It also provides full time physiotherapy. Facilities such as dentistry, chiropody and ophthalmology are bought in.

■ Nursing care

Nursing care is currently carried out in the temporary infirmary and the Long Wards. The temporary infirmary has a total capacity of 59 beds, considerably less than the one it replaces, and average occupancy has been 52 throughout the year. A number of In-Pensioners who would otherwise have been admitted as Infirmary Residents have remained in the Long Wards to ease overcrowding and will continue to do so until the new infirmary is built. They are looked after by nursing staff deployed to the Long Wards.

Notable achievements during the year have included two highly successful CSCI inspections where all inspected standards were met and completion of the first year in temporary accommodation where despite the difficulties, there was great success in terms of good health and social care provision for patients and staff.

■ Works

The Works department maintains all the fabric of the estate. The main project for 2005 was the refurbishment of Wren's Great Hall, Octagon and Chapel at a cost of £1 million. Work on the replacement of the paving on the South Terrace and on disabled access ramps has started and is expected to be completed in the first half of 2006. A resolution to the problem of disabled access to the Chapel and Great Hall by the provision of platform lifts awaits the approval of English Heritage.

■ Quartermaster

The Quartermaster is responsible for the provision of stores and the provision of cleaning, portering and catering services. He is also the Royal Hospital's Health and Safety Officer.

During the year some 350,000 meals were prepared and served, including re-location to a tent for four months whilst the Great Hall was refurbished. More than 50 new In-Pensioners were clothed as necessary, and the effects of 53 deceased In-Pensioners assembled, listed and handed to executors. The Royal Hospital was kept clean and safe, with 350 tons of waste material collected and recycled or otherwise disposed of, and over 300,000 items of laundry were processed.

■ Grounds

At the Royal Horticultural Society Chelsea Flower Show the Royal Hospital's Show Garden, designed by Julian Dowle, won a Gold Medal, Best in Show, and the Peoples Award.

During the year a new shrub border was planted in Ranelagh Gardens and major tree works were carried out including the removal of a row of trees in the South Grounds, making a significant improvement to the landscape of the area.

■ Development

The Director of Development has been responsible for coordinating the work of the agencies involved in the planning of the new infirmary as well as the modernisation of the Long Wards.

During the year, planning permission for the new infirmary was obtained, and detailed design work was started. A shortlist of contractors for tenders was drawn up following OJEU procedures, and following that 4 contractors were selected to bid for the construction of the new infirmary.

■ Events

The Events Department coordinates the use of Royal Hospital facilities by outside users. It also arranges guided tours of the Royal Hospital. During the year it generated some £0.76 million in income including the RHS Chelsea Flower Show.

Fundraising performance

Fundraising is carried out by the Appeal Executive Committee headed by Lord Salisbury. It has been set an ambitious target to raise £35 million by 1 April 2008. In order to increase the administrative support to the committee the team is being strengthened by a further 4 staff members funded from the Appeal.

The receipt of the Infirmary's planning consent on 8 June 2005 created an air of optimism that was reflected in the end of financial year's donations pledges and promises. Almost half of the £35 million target can now be accounted for, and with two years of the Appeal to run, we are already confident that sufficient funding to cover the cost of the new Infirmary will be available.

The Appeal was launched into its public phase on 10 November 2005, to which a number of donors and potentially interested supporters in the City were invited.

Regional fundraising events were run in Cornwall, West Sussex and Kent at the behest of Lords Lieutenant as their valued contribution to our Appeal.

Financial review and results for the year

Financial Review

Grant in Aid

All but the remaining cash balance of £8,000 of the Grant in Aid of £9.287 million that was drawn down was expended in accordance with the funding agreement with the Ministry of Defence.

The deficit of £332,000 shown as a carried forward reserve in the Grant in Aid fund is a result of the pension liability mentioned further on. Despite this, it is considered that funding remains secure for the foreseeable future and the fund is therefore a going concern.

Army Prize Money and Legacy Fund

During the year there was an exceptional item of £5.623 million representing the costs of writing off the old infirmary following its demolition. Of the net movement in funds some £2.559 million represented depreciation charges, of which £1.765 million related to heritage assets.

The new infirmary will be paid for from the Army Prize Money and Legacy Fund, reimbursed from funds from the Chelsea Pensioners' Appeal, and will appear on the balance sheet of the Army Prize Money and Legacy Fund. Some £2.053 million representing preparatory costs is included in the accounts under assets in course of construction.

The strengthening of the stock markets has resulted in an unrealised gain on the value of investments of £1.9 million for the year.

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, 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 20 retired members (or their widows), and has been closed to new entrants. The scheme is a final salary scheme with benefits based on number of years' service and final salary. Under FRS 17 there is a liability of £514,000 attributable to the Grant in Aid fund (see note 30).

Reserves policy

The Grant in Aid is not permitted to hold any reserves. The Army Prize Money and Legacy Fund holds no specific reserves at present. Royal Hospital Chelsea Appeal Limited holds both restricted and unrestricted reserves. These are designated to the Development Project, £2.85 million of which is unrestricted, and £4 million of which is restricted to the new infirmary. Chelsea Pensioner (RH) Limited holds no designated reserves.

Tangible fixed assets

The Hospital's operational land and buildings are stated at a professional valuation. In accordance with the Royal Institute of Chartered Surveyors guidance, the valuation basis is depreciated replacement cost. This basis is intended to measure the value to the Hospital of the assets in their present location, use and condition. The investment estate has been valued at £8.3 million on an open market basis while the operational estate has been valued at £307.9 million on a depreciated replacement cost basis. Of this, £301.9 million represents heritage assets, leaving a total of £6 million in non-heritage assets.

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.

Over the long term, the Commissioners' policy is to optimise the total return from the investments. The Commissioners believe that this investment policy remains appropriate. Care has been taken to set aside funds that are readily accessible in case of any cash shortfall during the building of the new infirmary.

Plans for future periods

Development plans

The most significant plans affecting the Royal Hospital in the short term are the building of a new infirmary, starting in 2006 and scheduled to be finished in 2008, and the subsequent re-conversion of the temporary infirmary into Long Ward accommodation. Medium term plans concentrate on the modernisation of the Long Ward accommodation, little changed since the days of Sir Christopher Wren, to incorporate en-suite facilities and to cater for female In-Pensioners. Long term plans exist to develop the use of the Soane Stable Block as a visitors' centre, enabling a revision of accommodation for administrative and support services.

Audit arrangements

The accounts of the Royal Hospital are audited by the Comptroller and Auditor General in accordance with the Letters Patent dated 23 November 2003 under Section 43 of the Charities Act 1993. An audit fee of £30,550 has been charged for the audit and is included in the Governance costs of the Hospital. No non-audit work was carried out on behalf of the Hospital in 2005-2006.

Statement on Internal Control

1 Scope of responsibility

As Accounting Officer, I 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 I am personally responsible in accordance with a letter of delegation from the Permanent Secretary of the Ministry of Defence.

2 The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Royal Hospital's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively, and economically. The system of internal control has been in place in the Royal Hospital for the year ended 31 March 2006 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

3 Capacity to handle risk

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

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

4 The risk control framework

- A Finance and Management Board meets monthly to consider the budgetary position, management planning and the strategic direction of the Royal Hospital (the Board comprises the Lieutenant Governor, the Secretary and the Heads of Department);
- regular reports are made by internal auditors to standards defined in the Government Internal Audit Manual which include the Internal Auditors' independent opinion on the adequacy and effectiveness of the Royal Hospital Chelsea's system of internal control together with recommendations for improvement;
- training of management, including the avoidance of fraud, includes regular staff study days;
- all staff are involved in training in the emergency response plan;
- every department is required to have First Aid staff with up to date qualifications;
- regular practice of emergency procedures takes place, including the involvement of the In-Pensioners; and
- 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.

5 Review of effectiveness

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

- periodic reports from the Chairman of the Audit Committee to the Board of Commissioners concerning internal control;
- internal audit reviews of internal control and risk management;
- regular reviews by the Risk Manager for each risk area; and
- 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.

JM Legge CB CMG

27 July 2006

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

I certify that I have audited the Royal Hospital Chelsea's financial statements for the year ended 31 March 2006. These comprise the Consolidated Statement of Financial Activities, the Consolidated Balance Sheet and the Royal Hospital Chelsea Balance Sheet, the Consolidated Cash Flow Statement and the related Notes. These financial statements have been prepared in the form directed by the Chelsea Hospital Act 1876; they have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets, and the accounting policies set out on pages 20 and 21.

Respective responsibilities of the Commissioners, the Secretary and the Auditor

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

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and with International Standards on Auditing (UK and Ireland). I have been appointed as auditor by the Letters Patent dated 23 November 2003 under Section 43 of the Charities Act 1993, and report in accordance with regulations made under Section 44 of the Charities Act 1993.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Chelsea Hospital Act 1876, and whether in all material respects the expenditure, income and resources have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Annual Report is not consistent with the financial statements, if the Hospital has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on pages 11 and 12 reflects the Royal Hospital Chelsea's compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information of which I am aware from my audit of the financial statements. I am not required to consider, nor have I considered, whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Royal Hospital Chelsea's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinions

In my opinion

- the financial statements give a true and fair view of the state of affairs of the Royal Hospital Chelsea and the Group as at 31 March 2006 and of the incoming resources and application of resources of the Group for the year then ended;
- the financial statements have been properly prepared in accordance with the Chelsea Hospital Act 1876, and;
- in all material respects the expenditure, income and resources have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General

27 July 2006

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Consolidated Statement of Financial Activities for the year ended 31 March 2006

	Notes	Grant in Aid fund	Unrestricted funds Army prize Money and Legacy fund	Subsidiaries	Restricted funds	Total group funds 2006	Prior year total group funds 2005 (Restated)
Incoming resources							
Incoming resources from generated funds							
Voluntary income	2	0	914,394	0	0	914,394	1,198,895
Activities for generating funds	3	0	27,784	0	0	27,784	29,904
Investment income	4	0	1,150,168	0	0	1,150,168	1,071,667
Charitable activities	5	9,287,000	0	2,632,875	250,000	12,169,875	16,307,504
Other incoming resources	6	837,075	834,286	0	0	1,671,361	883,621
Total incoming resources		10,124,075	2,926,632	2,632,875	250,000	15,933,582	19,491,591
Resources expended							
Costs of generating funds							
Costs of generating voluntary income	7	264,511	2,008	1,697,897	0	1,964,416	1,547,498
Fundraising trading: cost of goods sold and other costs	8	0	26,076	0	0	26,076	52,731
Investment management costs		0	32,723	0	0	32,723	28,728
<i>Charitable activities</i>							
Medical and outpatients	9	396,233	0	0	0	396,233	459,654
Nursing care	10	2,225,542	69	0	0	2,225,611	2,232,301
Welfare and ceremonial	11	883,011	172,537	0	0	1,055,548	984,007
Domestic support	12	2,838,500	58,566	0	0	2,897,066	2,830,293
Administrative support	13	1,347,434	248,484	0	0	1,595,918	1,406,802
Maintenance of grounds	14	210,609	334,005	0	0	544,614	367,968
Buildings maintenance	15	1,529,966	499	0	0	1,530,465	1,392,614
Development projects	16	81,856	1,380	0	0	83,236	75,557
<i>Other resources expended</i>							
Depreciation	21	150,472	2,558,950	3,853	0	2,713,275	2,398,453
Governance costs	17	98,023	68,052	0	0	166,075	164,247
Total resources expended		10,026,157	3,503,349	1,701,750	0	15,231,256	13,515,432
Net incoming/outgoing resources before transfers		97,918	(576,717)	931,125	250,000	702,326	5,976,159

	Notes	Grant in Aid fund	Unrestricted funds Army prize Money and Legacy fund	Subsidiaries	Restricted funds	Total group funds 2006	Prior year total group funds 2005 (Restated)
<i>Transfers</i>							
Gross transfers between funds	20	(96,012)	96,012	0	0	0	0
Net incoming/ outgoing resources before other recognised gains and losses		1,906	(480,705)	931,125	250,000	702,326	5,976,159
<i>Other recognised gains/losses</i>							
Realised gains on revaluation of used fixed assets		0	(11,790)	0	0	(11,790)	(315,336)
Realised loss on disposal of fixed assets		0	(5,621,893)	0	0	(5,621,893)	0
Unrealised gains/losses on investment assets	22	0	1,939,556	0	0	1,939,556	1,162,340
Actuarial gains/losses on defined benefit pension schemes	29	(19,000)	0	0	0	(19,000)	(19,000)
Net movement in funds		(17,094)	(4,174,832)	931,125	250,000	(3,010,801)	6,804,163
Reconciliation of funds							
Total funds brought forward		(314,671)	333,334,667	1,938,417	3,750,000	338,708,413	331,904,250
Total funds carried forward		(331,765)	329,159,835	2,869,542	4,000,000	335,697,612	338,708,413

All the Royal Hospital's activities are classed as continuing. All recognised gains and losses are included above.

Consolidated Balance Sheet as at 31 March 2006

	Notes	Total group funds 2006		2005
		£	£	£
				(Restated)
Fixed assets				
<i>Tangible assets</i>				
Heritage	21	301,894,850		308,841,585
Non-heritage	21	6,006,477		4,554,504
Listed investments	22	11,957,187		9,805,934
Investment property	23	8,287,000		8,287,000
		328,145,514		331,498,023
Current assets				
Stocks	24	107,349		138,231
Debtors	25	480,266		599,693
Cash at bank and in hand	26	9,481,290		8,241,503
		10,068,905		8,979,427
Creditors: amounts due falling within one year	27	(1,445,265)		(1,006,275)
Net current assets		8,623,640		7,973,152
Total assets less current liabilities		336,769,154		339,471,175
Creditors: amounts falling due over one year	28-30	(557,542)		(247,762)
Pensions liability	29	(514,000)		(515,000)
Total assets less liabilities		335,697,612		338,708,413
Reserves				
Grant in Aid Fund		(331,765)		(314,671)
<i>Army Prize Money and Legacy Fund</i>				
Hospital funds				
Unrestricted funds		329,159,835		333,334,667
<i>Funds retained in Royal Hospital Chelsea Appeal Ltd</i>				
Unrestricted		2,852,261		
Restricted		4,000,000		5,680,945
<i>Funds retained in Chelsea Pensioner (RH) Ltd</i>		17,281		7,472
Consolidated Army Prize Money and Legacy Fund		336,029,377		339,023,084
Total Reserves		335,697,612		338,708,413

Approved by the following three Commissioners on 27 July 2006

IW Frazer FCA

The Rt Hon Lord Glenarthur DL

Mr M Gainsborough

Royal Hospital Chelsea Balance Sheet as at 31 March 2006

	Notes	Grant in Aid fund £	Army Prize Money and Legacy fund £	Total Hospital funds 2006 £	2005 Total funds £
Fixed assets					
<i>Tangible assets</i>					
Heritage	21		301,894,850	301,894,850	308,841,585
Non-heritage	21	529,406	5,433,485	5,962,891	4,554,504
Listed investments	22	0	11,884,228	11,884,228	9,805,934
Investment property	23	0	8,287,000	8,287,000	8,287,000
		529,406	327,499,563	328,028,969	331,489,023
Current assets					
Stocks	24	81,092	5,000	86,092	71,776
Debtors	25	279,866	894,983	1,174,849	160,864
Cash at bank and in hand	26	7,885	1,520,185	1,528,070	2,563,914
		368,843	2,420,168	2,789,011	2,796,554
Creditors: amounts falling due within one year	27	(444,836)	(473,532)	(918,368)	(502,818)
Net current assets		(75,993)	1,946,636	1,870,643	2,293,736
Total assets less current liabilities		453,413	329,446,199	329,899,612	333,782,758
Long term creditors	28-30	(271,178)	(286,364)	(557,542)	(247,762)
Net assets excluding pension liability		182,235	329,159,835	329,342,070	333,534,996
Pension liability	29	(514,000)	0	(514,000)	(515,000)
Net assets including pension liability		(331,765)	329,159,835	328,828,070	333,019,996
Reserves					
Restricted funds		0	0	0	0
Unrestricted income funds					
Grant in Aid fund		(331,765)	0	(331,765)	(314,671)
Army Prize and Legacy fund		0	329,159,835	329,159,835	333,334,667
Total funds		(331,765)	329,159,835	328,828,070	333,019,996

Consolidated Cash Flow Statement for the year ended 31 March 2006

	Grant in Aid fund	Army Prize Money and Legacy fund	Total group funds 2006	2005 Total funds
	£	£	£	£
Net cash flow from operating activities	347,407	2,725,961	3,073,368	6,943,978
Returns on investment				
Interest received	12,191	57,087	69,278	51,730
Dividends received	0	395,156	395,156	309,043
Rent received from investment properties	0	755,012	755,012	720,764
	12,191	1,207,255	1,219,446	1,081,537
Capital expenditure and financial investment				
Payments to acquire listed investments	0	(1,914,173)	(1,914,173)	(1,203,088)
Receipts from sales of listed investments	0	1,704,344	1,704,344	1,670,983
Proceeds from sale of fixed assets	16,888	(23,135)	(6,247)	0
Payments to acquire tangible fixed assets	(373,176)	(2,463,774)	(2,836,950)	(3,395,848)
	(356,288)	(2,696,738)	(3,053,026)	(2,927,953)
Management of liquid resources	0	1,050,000	1,050,000	(2,050,000)
Increase/(decrease) in cash	3,310	2,286,478	2,289,788	3,047,562

Reconciliation of net incoming/(outgoing) resources to net cash flow from operating activities

	£	£	£	£
Net incoming/(outgoing) resources before transfers	1,906	688,078	689,984	5,976,159
Interest receivable	(12,191)	(57,087)	(69,278)	(51,730)
Income from listed investments	0	(395,156)	(395,156)	(350,903)
Income from Investment properties	0	(755,012)	(755,012)	(720,764)
Depreciation	150,472	2,562,803	2,713,275	2,398,453
(Increase)/decrease in stocks	(15,817)	46,698	30,881	7,165
(Increase)/decrease in debtors	(219,902)	(417,754)	(637,656)	(444,403)
Increase/(decrease) in creditors	462,939	1,041,601	1,504,540	160,001
Gain/(loss) on sale of fixed assets	0	11,790	11,790	0
(Increase)/decrease in pension costs	(20,000)	0	(20,000)	(30,000)
Net cash flow from operating activities	347,407	2,725,961	3,073,368	6,943,978

Analysis of changes in net funds

	At 1 April 2005	Cash Flow	At 31 March 2006
	£	£	£
Term deposits ('liquid resources')	2,050,000	(1,050,000)	1,000,000
Other accounts and cash in hand	6,191,502	2,289,788	8,481,290
Total	8,241,502	1,239,788	9,481,290

Notes to the financial statements for the year ended 31 March 2006

1 Accounting policies

a Basis of accounting

The financial statements have been prepared in accordance with applicable accounting standards, under the historical cost convention and comply with the Companies Act 1985. The financial statements have been prepared in accordance with *Accounting by Charities: Statement of Recommended Practice (revised 2005)* ('the Charities SORP') issued in March 2005 and applicable United Kingdom Accounting Standards. Where appropriate, comparative figures have been restated.

Consolidated financial statements have been prepared for the Hospital and its two subsidiary companies, Royal Hospital Chelsea Appeal Limited, formerly named Chelsea Pensioners 2000 Limited, and Chelsea Pensioner (RH) Limited.

b Recognition of incoming resources

Voluntary income and donations are accounted for in the Statement of Financial Activities (SOFA) as they are received. Grant in Aid, rents and earned income are accounted for as they are receivable.

c Outgoing resources

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

d Fund analysis

The primary statements and the notes to the accounts are analysed between the two main funds of the Hospital, the Grant in Aid Fund and the Army Prize Money and Legacy Fund, which subsumes the Drouly, Ingram, Ranelagh and De la Fontaine Legacies. In the consolidated statements, the transactions and balances of the subsidiaries are included in the Army Prize Money and Legacy Fund. In terms of the Charities SORP, all material funds are unrestricted with the exception of Royal Hospital Chelsea Appeal Limited, but separate analysis is included in the accounts statements.

e Tangible fixed assets

Freehold property is stated at valuation on a depreciated replacement cost basis. Valuations by independent professionally qualified valuers are obtained at five yearly intervals. Other tangible fixed assets are capitalised at their estimated depreciated replacement cost or at historic cost on acquisition. From 2004 onwards, all new capital expenditure is to be 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, over its expected useful life, as follows

Freehold buildings	over the remaining useful life as estimated by the valuer
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

f Heritage assets

New heritage assets are capitalised upon acquisition. Existing heritage assets have not been capitalised.

g Investment properties

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

h Capitalisation thresholds

The lower limit for capitalisation of land and buildings is £10,000. For all other fixed assets it is £5,000.

i 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.

j Stocks

Stock is valued at the lower of cost and net realisable value. Provision is made for obsolete and slow moving items. Stationery stocks are now no longer counted at the year end since their value is not material.

k Pensions

The nature of the Hospital's pension schemes are set out in note 29. The pension costs charged to the SOFA represent the contributions payable to the Schemes on behalf of members of staff. There has been a change in accounting policy in that all staff employed within the Royal Hospital are now eligible for the Principal Civil Service Pension Scheme or the National Health Service Superannuation Scheme and to enable this all staff are paid from the Grant in Aid. This has affected those staff who previously belonged to the National Mutual Life scheme.

l Taxation

The Hospital is recognised as charitable by the Inland Revenue and is generally exempt from Corporation Tax on surpluses and capital gains. The Hospital has de-registered for the purposes of VAT. Irrecoverable VAT is included in the SOFA with the item to which it relates.

m Payments

The Hospital aims to pay all invoices within 30 days of receipt, and this was achieved in the year ended 31 March 2006.

2 Voluntary Income

	Grant in Aid Unrestricted funds £	Army Prize Money and Legacy fund Unrestricted funds £	Restricted funds £	Total Group funds 2006 £	Prior year total group (restated) 2005 £
Donations and legacies	0	914,394	0	914,394	1,198,895

Donations and legacies include £140,177 (2005: £257,280) received from the EH Dashwood Estate. The Hospital is entitled to 25 per cent of the net estate, which consists of property and equity investments. The trustees of the estate make periodic distributions to the beneficiaries from the net income of the estate's investments and the proceeds of investment sales. The Hospital is not provided with full information on the market value of its interest in the estate, and therefore accounts for this legacy on the basis of distributions received. The trustees of the estate have reported that its property assets had an estimated market value of £9 million as at April 2005. All donations are credited to the Army Prize Money and Legacy Fund.

3 Activities for generating funds

	Grant in Aid Unrestricted funds £	Army Prize Money and Legacy fund Unrestricted funds £	Restricted funds £	Total group funds 2006 £	Prior year total group (restated) 2005 £
Prince of Wales Hall	0	27,784	0	27,784	29,904

4 Investment Income

	Grant in Aid Unrestricted funds £	Army Prize Money and Legacy fund Unrestricted funds £	Restricted funds £	Total group funds 2006 £	Prior year total group (restated) 2005 £
Dividends for year	0	395,156	0	395,156	350,904
Income from property	0	755,012	0	755,012	720,763
Total	0	1,150,168	0	1,150,168	1,071,667

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

Under the Leasehold Reform Housing and Urban Development Act 1993, tenants were given the right to extend their leases by ninety years. The Act specifies that a premium is payable for the granting of such extensions and gives details of how this is to be calculated. The amount of £755,012 shown as income from investment properties includes £538,215 paid to the Hospital in respect of such premiums (£460,414 in 2004-2005).

5 Charitable activities

	Grant in Aid Unrestricted funds £	Army Prize Money and Legacy fund Unrestricted funds £	Subsidiaries Unrestricted funds £	Subsidiaries Restricted funds £	Total group funds 2006 £	Prior year total group funds £
Grant in Aid	9,287,000	0	0	0	9,287,000	9,610,000
Income of subsidiaries	0	0	2,632,875	250,000	2,882,875	6,697,504
Total	9,287,000	0	2,632,875	250,000	12,169,875	16,307,504

There are no specific conditions on the Grant in Aid other than that it should be spent in accordance with the Crown Letters Patent and the Funding Agreement made with the Ministry of Defence.

6 Other incoming resources

Other incoming resources	Grant in Aid Unrestricted funds £	Army Prize Money and Legacy fund Unrestricted funds £	Restricted funds £	Total group funds 2006 £	Prior year total group (restated) 2005 £
Post Office funding	17,714	0	0	17,714	14,941
Staff accommodation charges	210,167	0	0	210,167	216,833
Family practice	112,811	0	0	112,811	114,125
Meal charges	66,432	0	0	66,432	71,411
Events recoveries	10,607	0	0	10,607	41,735
Pension contributions	107,481	0	0	107,481	104,269
Bank interest	12,191	57,087	0	69,278	14,941
Other income	299,672	21,430	0	321,102	305,366
Recoveries from Appeal	0	755,769	0	755,769	0
Total	837,075	834,286	0	1,671,361	883,621

7 Costs of generating voluntary income

	Grant in Aid Unrestricted funds £	Army Prize Money and Legacy fund Unrestricted funds £	Subsidiaries Unrestricted funds £	Total group funds 2006 £	Prior year total group (restated) 2005 £
Staff costs	260,162	0	0	260,162	239,685
Support and training	582	0	0	582	326
Other costs	3,767	2,008	1,701,750	1,707,525	1,307,487
Total	264,511	2,008	1,701,750	1,968,269	1,547,498

This includes the costs of the Events Department attributable to non-commercial activities.

Also included under subsidiaries is £3,853 shown separately under the charges for depreciation.

8 Fundraising trading: costs of goods sold and other costs

The Hospital has two subsidiary companies.

Royal Hospital Chelsea Appeal Limited (formerly Chelsea Pensioners 2000 Limited)

The company is limited by guarantee and incorporated in England and Wales, and is a registered charity. It was formed in order to stage the son et lumière event 'Men in Scarlet', commemorating the story of the Chelsea Pensioners, which was held in September 2000 and to undertake other charitable activities associated with the Royal Hospital and, in particular, to undertake the fundraising for the Hospital's development plan. This company owns the shares of Chelsea Pensioner (RH) Ltd (below).

The Hospital controls the company because its rules require that the majority of the Board of Directors should be Commissioners of the Royal Hospital.

Chelsea Pensioner (RH) Limited

The company is limited by shares and is incorporated in England and Wales. Its share capital is wholly owned by Royal Hospital Chelsea Appeal Limited, and as a result it is also a subsidiary of the Hospital. 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. A summary of the accounts is as follows.

RHC Appeal Ltd Group accounts summary

	Group 2006		Total funds
	Unrestricted	Restricted	2005
	£	£	£
Income	2,632,875	250,000	6,697,504
Expenditure	(1,701,750)	0	(1,893,920)
	931,125	250,000	4,803,584
Fixed assets	43,587	0	9,002
Stock	21,257	0	66,455
Debtors	61,185	0	438,829
Cash	3,953,221	4,000,000	5,677,588
Investments	72,959	0	
	4,152,209	4,000,000	6,191,874
Creditors: less than one year	(1,282,667)	0	(503,457)
Funds retained in RHC Appeal Ltd	2,869,542	4,000,000	5,688,417
Reserves			
Restricted funds		4,000,000	3,750,000
Unrestricted	2,869,542		1,938,417
	2,869,542	4,000,000	5,688,417

Prince of Wales Hall

	2006	2005
Turnover	27,784	29,904
Cost of sales	(25,855)	(26,908)
Gross profit	1,929	2,996
Administrative expenses	(222)	0
Other costs	0	(402)
Net profit/(loss)	1,707	2,594

9 Medical and outpatients

	Grant in Aid Unrestricted funds £	Army Prize Money and Legacy fund Unrestricted funds £	Restricted funds £	Total group funds 2006 £	Prior year total group (restated) 2005 £
Staff costs	292,277	0	0	292,277	308,736
Staff support and training	822	0	0	822	16,382
Direct expenses	89,638	0	0	89,638	113,434
Office overheads	1,284	0	0	1,284	5,008
Travel	3,667	0	0	3,667	3,184
Professional charges	8,545	0	0	8,545	12,910
Total	396,233	0	0	396,233	459,654

The above costs were incurred in the Outpatients department, and are met from the Grant in Aid Fund.

10 Nursing care

	Grant in Aid Unrestricted funds £	Army Prize Money and Legacy fund Unrestricted funds £	Restricted funds £	Total group funds 2006 £	Prior year total group (restated) 2005 £
Staff costs	2,185,449	0	0	2,185,449	2,142,022
Staff support and training	20,592	0	0	20,592	71,477
Direct expenses	10,003	49	0	10,052	10,063
Office overheads	7,510	0	0	7,510	8,200
Travel	825	20	0	845	539
Professional charges	1,163	0	0	1,163	0
Total	2,225,542	69	0	2,225,611	2,232,301

The above costs were incurred in the Matron's department in the infirmary wards, and include the support costs of porters and domestic staff.

11 Welfare and ceremonial costs

	Grant in Aid Unrestricted funds £	Army Prize Money and Legacy fund Unrestricted funds £	Restricted funds £	Total group funds 2006 £	Prior year total group (restated) 2005 £
Staff costs	840,247	0	0	840,247	789,674
Staff support and training	16,083	0	0	16,083	15,923
Direct expenses	542	165,395	0	165,937	144,299
Office overheads	1,219	0	0	1,219	4,015
Travel	8,198	5,086	0	13,284	18,871
Publicity	16,722	2,056	0	18,778	8,225
Professional charges	0	0	0	0	3,000
Total	883,011	172,537	0	1,055,548	984,007

The above costs, which are specifically related to In-Pensioner welfare, were incurred in both the Adjutant's and the Secretary's departments.

12 Domestic support costs

Domestic support	Grant in Aid Unrestricted funds £	Army Prize Money and Legacy fund Unrestricted funds £	Restricted funds £	Total group funds 2006 £	Prior year total group (restated) 2005 £
Staff costs	1,799,818	0	0	1,799,818	1,584,693
Staff support and training	9,591	0	0	9,591	100,886
Direct expenses	1,025,385	53,302	0	1,078,687	1,131,187
Office overheads	3,248	0	0	3,248	3,602
Travel	458	5,264	0	5,722	8,750
Publicity	0	0	0	0	1,175
Total	2,838,500	58,566	0	2,897,066	2,830,293

The above costs were incurred in the Quartermaster's department. Included in direct expenses is an amount of £7,536 in respect of an operating lease on the hire of a vehicle.

13 Administrative support costs

	Grant in Aid Unrestricted funds £	Army Prize Money and Legacy fund Unrestricted funds £	Restricted funds £	Total group funds 2006 £	Prior year total group (restated) 2005 £
Staff costs	939,471	0	0	939,471	877,344
Staff support and training	41,752	0	0	41,752	70,964
Direct expenses	271,691	208,226	0	479,917	319,317
Office overheads	54,335	3,548	0	57,883	74,786
Travel	11,257	4,148	0	15,405	7,510
Publicity	1,899	32,312	0	34,211	29,211
Bank charges	29	250	0	279	670
Pension finance costs	27,000	0	0	27,000	27,000
Total	1,347,434	248,484	0	1,595,918	1,406,802

The above costs were incurred in the Secretary's department. Included in direct expenses is an amount of £28,380 in respect of operating leases on the hire of photocopiers.

14 Grounds maintenance

	Grant in Aid Unrestricted funds £	Army Prize Money and Legacy fund Unrestricted funds £	Restricted funds £	Total group funds 2006 £	Prior year total group (restated) 2005 £
Staff costs	210,609	0	0	210,609	195,747
Staff support and training	0	920	0	920	0
Direct expenses	0	332,467	0	332,467	171,257
Office overheads	0	113	0	113	352
Travel	0	505	0	505	612
Total	210,609	334,005	0	544,614	367,968

The above costs were incurred in the Superintendent of Grounds' department.

15 Building maintenance and utilities

	Grant in Aid Unrestricted funds	Army Prize Money and Legacy fund Unrestricted funds	Restricted funds	Total group funds 2006	Prior year total group (restated) 2005
	£	£	£	£	£
Staff costs	600,446	0	0	600,446	550,694
Staff support and training	2,896	0	0	2,896	32,156
Direct expenses	362,178	499	0	362,677	266,118
Office overheads	584	0	0	584	1,365
Travel	5	0	0	5	193
Professional charges	33,659	0	0	33,659	19,227
Works maintenance	530,198	0	0	530,198	522,861
Total	1,529,966	499	0	1,530,465	1,392,614

The above costs were incurred by the Surveyor of Works' department. They exclude capital costs shown as additions to tangible fixed assets in note 21.

16 Development costs

	Grant in Aid Unrestricted funds	Army Prize Money and Legacy fund Unrestricted funds	Restricted funds	Total group funds 2006	Prior year total group (restated) 2005
	£	£	£	£	£
Staff costs	81,717	0	0	81,717	72,762
Staff support and training	0	0	0	0	0
Direct expenses	0	30	0	30	0
Office overheads	48	317	0	365	886
Travel	91	1,033	0	1,124	1,749
Professional charges	0	0	0	0	160
Total	81,856	1,380	0	83,236	75,557

The above costs were incurred in the Director of Development's department, set up during the year.

17 Governance costs

	Grant in Aid Unrestricted funds	Army Prize Money and Legacy fund Unrestricted funds	Restricted funds	Total group funds 2006	Prior year total group (restated) 2005
	£	£	£	£	£
Audit fees	59,127	38,544	0	97,671	48,929
Surveyors' fees	0	0	0	0	0
Consultancy fees	15,006	0	0	15,006	57,443
Legal fees	23,890	29,508	0	53,398	57,875
Total	98,023	68,052	0	166,075	164,247

The actual fee including VAT charged by the National Audit Office for the audit of the Hospital's consolidated financial statements was £30,550 (2005: £28,200).

18 Staff costs and numbers; Commissioners' emoluments

	Grant in Aid fund £	Subsidiaries £	Total funds 2006 £	Total funds 2005 £
Salaries and wages	5,296,260	166,127	5,462,387	5,565,965
Social security costs	415,531	9,482	425,013	424,066
Pension costs	867,992	22,243	890,235	693,648
	<u>6,579,783</u>	<u>197,852</u>	<u>6,777,635</u>	<u>6,683,679</u>
Casual and agency pay	353,244	0	353,244	161,221
In-Pensioner pay	79,256	0	79,256	76,823
	<u>7,012,283</u>	<u>197,852</u>	<u>7,210,135</u>	<u>6,921,723</u>

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

	2006	2005
Medical and outpatients	292,277	324,474
Nursing care	2,185,449	2,165,058
Welfare and ceremonial costs	840,247	795,773
Domestic support costs	1,799,818	1,677,534
Administrative support costs	881,231	824,029
Grounds maintenance	210,609	195,747
Buildings maintenance and utilities	600,446	572,989
Project management	81,717	72,762
Fundraising and publicity	260,162	239,685
Management and administration	58,179	53,672
	<u>7,210,135</u>	<u>6,921,723</u>

The average monthly number of staff by department was as follows

	Part time	Full time	2006	2005
Infirmery and Outpatients	1	6	7	9
Nursing	2	78	80	82
Adjutant	1	25	26	27
Quartermaster	9	63	72	73
Secretary	1	4	5	5
Chaplain	2	1	3	3
Finance	0	4	4	4
Chief Clerk	3	5	8	8
Administration	1	3	4	4
Superintendent of grounds	1	9	10	10
Surveyor of works	0	21	21	22
Events	0	4	4	4
Fundraising	0	3	3	3
Development	0	2	2	2
	<u>21</u>	<u>228</u>	<u>249</u>	<u>256</u>

Higher paid employees

Excluding the Governor and Lieutenant Governor, the number of employees whose remuneration was over £60,000 per annum (excluding pension contributions) was as follows

	2006 Number	2005 Number
£60,000 to £69,999	0	1
	<u>0</u>	<u>1</u>

Commissioners' emoluments

None of the Commissioners receive any remuneration for acting as Commissioners. No expenses were claimed during the year. The Governor and Lieutenant Governor are Commissioners, and receive salaries in return for their work as executives of the Royal Hospital Chelsea. The Governor is employed on the basis of a six year tour while the Lieutenant Governor is on a four year tour extendable by another four. Former Governors and Lieutenant Governors receive pensions from an unfunded defined benefit scheme: these costs are included in note 29 – Unfunded Scheme.

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

	Age at the year end	Salary £000	Real increase in pension at 60 during the year £000	Total accrued pension at 60 at the year end £000	Cash equivalent transfer value at start date £000	Cash equivalent transfer value at end date £000	Real increase in cash equivalent transfer value £000
General Sir Jeremy Mackenzie <i>Governor and the highest paid Commissioner</i>	65	75 – 80	0 – 2.5	5 – 10	103	138	23
Major General APN Currie <i>Lieutenant Governor and Chief Executive (from 1 October 2005)</i>	57	55 – 60	0 – 2.5	0 – 2.5	0	9	8
Major General JMFC Hall <i>Lieutenant Governor and Chief Executive (to 30 September 2005)</i>	61	60 – 65	0 – 2.5	5 – 10	117	138	9

The benefits of the pension scheme are similar to the Principal Civil Service Pension Scheme. Benefits accrue at the rate of 1/80th of pensionable salary for each year of service. In addition a lump sum equivalent to three years' pension is payable on retirement.

19 Unrealised gains/(losses)

	2006 £	2005 £
Revaluation of listed investments	1,939,556	1,162,340
	<u>1,939,556</u>	<u>1,162,340</u>

20 Transfers between funds

Grant in Aid fund £	Army Prize Money and Legacy Fund £
(96,012)	96,012

Transfers represent payments for capital items funded from the Grant in Aid, but affecting fixed assets belonging to the Army Prize Money and Legacy Fund. These include the fitting of the temporary infirmary.

21 Tangible fixed assets

Heritage assets

	Assets in course of construction £	Land and buildings Dwelling £	Land and buildings Non- dwelling £	Plant, machinery and equipment £	Vehicles £	Exhibits £	Total £
Cost or valuation							
At 1 April 2005 (restated)	57,470	269,520,411	39,049,234	0	0	0	308,627,115
Additions at cost	583,997	0	0	0	0	0	583,997
Reclassifications	(641,467)	553,196	88,271	0	0	0	0
Disposals	0	0	0	0	0	0	0
At 31 March 2006	0	270,073,607	39,137,505	0	0	0	309,211,112
Depreciation							
At 1 April 2005 (restated)	0	3,692,192	1,858,631	0	0	0	5,550,823
Charge for year	0	1,142,800	622,639	0	0	0	1,765,439
Disposals in year	0	0	0	0	0	0	0
At 31 March 2006	0	4,834,992	2,481,270	0	0	0	7,316,262
Net book value							
At 1 April 2005 (restated)	57,470	265,828,219	37,190,603	0	0	0	303,076,292
At 31 March 2006	0	265,238,615	36,656,235	0	0	0	301,894,850

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

Grant in Aid Fund	0	0	0	0	0	0	0
Army Prize Money and Legacy Fund	0	265,238,615	36,656,235	0	0	0	301,894,850
Subsidiaries	0	0	0	0	0	0	0
	0	265,238,615	36,656,235	0	0	0	301,894,850

Non-Heritage assets

	Assets in course of construction	Land and buildings Dwelling	Land and buildings Non- dwelling	Plant, machinery and equipment	Vehicles	Exhibits	Total
	£	£	£	£	£	£	£
Cost or valuation							
At 1 April 2005 (restated)	1,188,846	6,335,084	3,007,031	1,479,129	130,924	55,555	12,196,569
Additions at cost	1,823,674	0	0	403,094	26,185	0	2,252,953
Reclassifications	(763,959)	46,766	89,838	627,355	0	0	0
Disposals	0	(4,710,990)	(1,979,114)	(10,540)	0	0	(6,700,644)
At 31 March 2006	2,248,561	1,670,860	1,117,755	2,499,038	157,109	55,555	7,748,878
Depreciation							
At 1 April 2005 (restated)	0	897,193	258,465	659,914	52,200	0	1,867,772
Charge for year	0	626,559	76,576	234,442	10,258	0	947,835
Disposals in year	0	(791,352)	(276,859)	(4,995)	0	0	(1,073,206)
At 31 March 2006	0	732,400	58,182	889,361	62,458	0	1,742,401
Net book value							
At 1 April 2005 (restated)	1,188,846	5,437,891	2,748,566	819,215	78,724	55,555	10,328,797
At 31 March 2006	2,248,561	938,460	1,059,573	1,609,677	94,651	55,555	6,006,477

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

Grant in Aid Fund	59,644	0	0	410,469	59,293	0	529,406
Army Prize Money and Legacy Fund	2,188,917	938,460	1,059,573	1,155,622	35,358	55,555	5,433,485
Subsidiaries	0	0	0	43,586	0	0	43,586
	2,248,561	938,460	1,059,573	1,609,677	94,651	55,555	6,006,477

Asset summary

	Assets in course of construction	Land and buildings Dwelling	Land and buildings Non- dwelling	Plant, machinery and equipment	Vehicles	Exhibits	Total
	£	£	£	£	£	£	£
Cost or valuation							
At 1 April 2005 (restated)	1,246,316	275,855,495	42,056,265	1,479,129	130,924	55,555	320,823,684
Additions at cost	2,407,671	0	0	403,094	26,185	0	2,836,950
Reclassifications	(1,405,426)	599,962	178,109	627,355	0	0	0
Disposals	0	(4,710,990)	(1,979,114)	(10,540)	0	0	(6,700,644)
At 31 March 2006	2,248,561	271,744,467	40,255,260	2,499,038	157,109	55,555	316,959,990

Depreciation

At 1 April 2005 (restated)	0	4,589,385	2,117,096	659,914	52,200	0	7,418,595
Charge for year	0	1,769,359	699,215	234,442	10,258	0	2,713,274
Disposals in year	0	(791,352)	(276,859)	(4,995)	0	0	(1,073,206)
At 31 March 2006	0	5,567,392	2,539,452	889,361	62,458	0	9,058,663

Net book value

At 1 April 2005 (restated)	1,246,316	271,266,110	39,939,169	819,215	78,724	55,555	313,405,089
At 31 March 2006	2,248,561	266,177,075	37,715,808	1,609,677	94,651	55,555	307,901,327

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

Grant in Aid Fund	59,644	0	0	410,469	59,293	0	529,406
Army Prize Money and Legacy Fund	2,188,917	266,177,075	37,715,808	1,155,622	35,358	55,555	307,328,335
Subsidiaries	0	0	0	43,586	0	0	43,586
	2,248,561	266,177,075	37,715,808	1,609,677	94,651	55,555	307,901,327

The Hospital's freehold land and buildings were valued by Cordea Savills as at 1 April 2002 on the depreciated replacement cost basis, in accordance with RICS guidance.

22 Listed investments

	2006 £	2005 £
Market value at 1 April 2005	9,805,934	9,426,826
Additions at cost	1,854,871	1,203,087
Cost of investments sold	(1,716,133)	(1,986,319)
Unrealised revaluation gain/(loss)	1,939,556	1,162,340
Market value at 31 March 2006	11,884,228	9,805,934
Historical cost at 1 April 2005	9,609,915	10,393,146
Historical cost at 31 March 2006	9,748,653	9,609,915

23 Investment property

	2006 £	2005 £
Freehold land and buildings at valuation	8,287,000	8,287,000

The Hospital's freehold investment property was valued by Cordea Savills as at 1 April 2002 on the open market value basis, in accordance with RICS guidance. All investment properties belong to the Army Prize Money and Legacy Fund.

24 Stocks

	Grant in Aid fund £	Army Prize Money and Legacy fund £	Hospital Funds £	Subsidiaries £	Total funds 2006 £	Total funds 2005 £
Trading stocks	0	0	0	21,257	21,257	66,455
Consumable stores:	940	0	940	0	940	0
Superintendent of grounds	0	5,000	5,000	0	5,000	6,500
Quartermaster	80,152	0	80,152	0	80,152	65,276
Total	81,092	5,000	86,092	21,257	107,349	138,231

25 Debtors

	Grant in Aid fund £	Army Prize Money and Legacy fund £	Hospital Funds £	Subsidiaries £	Total funds 2006 £	Total funds 2005 £
Sundry debtors	87,958	14,078	102,036	61,185	163,221	547,021
Prepayments	191,908	811,799	1,003,707	0	1,003,707	10,811
Accrued income	0	69,106	69,106	0	69,106	41,861
Total	279,866	894,983	1,174,849	61,185	1,236,034	599,693

There were intra-Group debtors of £755,768 at 31 March 2006.

26 Cash at bank and in hand

	Grant in Aid fund £	Army Prize Money and Legacy fund £	Hospital Funds £	Subsidiaries £	Total funds 2006 £	Total funds 2005 £
Term deposits	0	1,000,000	1,000,000	0	1,000,000	2,050,000
Other accounts and cash in hand	7,885	520,185	528,070	7,953,220	8,481,290	6,191,503
	7,885	1,520,185	1,528,070	7,953,220	9,481,290	8,241,503

27 Creditors: amounts falling due within one year

	Grant in Aid fund	Army Prize Money and Legacy fund	Hospital funds	Subsidiaries	Total funds 2006	Total funds 2005
	£	£	£	£	£	£
Sundry creditors	0	56,780	56,780	1,282,667	1,339,447	516,816
Accrued charges	215,638	353,489	569,127	0	569,127	401,277
Deferred income	4,530	0	4,530	0	4,530	0
Other creditors	224,668	63,263	287,931	0	287,931	88,182
	444,836	473,532	918,368	1,282,667	2,201,035	1,006,275

There were intra-Group creditors of £755,768 at 31 March 2006.

28 Related party transactions

Creditors falling due in over one year represents a balance of £286,364 (2005: £247,762) of which £232,671 are funds held by the Hospital on behalf of the In-Pensioners' Club, and the remaining £53,693 relates to the Royal Hospital Chapel and is covered in note 33 below. The Club is an independent unincorporated association, managed by the In-Pensioners to provide social and welfare activities for them. The Club placed £250,000 with the Hospital on 1 September 1999, in exchange for which the Hospital agreed to meet certain of the Club's costs. These costs amounted to £18,245 in 2005-2006, and the Hospital estimates that they will be approximately £15,000 in 2006-2007.

The President of the Club is the Adjutant of the Royal Hospital, and the Vice President and officers of the Club are drawn from the Adjutant's staff and the In-Pensioners.

The Governor is Chairman of the Army Benevolent Fund. Transactions with the Army Benevolent Fund during the year amounted to £5,489 (2005: £5,064) in respect of provision of facilities.

29 Pensions

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

Principal Civil Service Pension Scheme (PCSPS)

Pension benefits for 171 members of staff are provided through the Civil Service pensions arrangements. From 1 October 2002, Civil Servants may be in one of three statutory based 'final salary' defined benefit schemes (classic, premium, and classic plus). Under the new arrangements, new entrants after 1 October 2002 were not able to join the existing PCSPS, which has been renamed 'classic' and has become a closed scheme. Existing members of the PCSPS were given the option of remaining within 'classic'; electing to transfer to 'premium', the new defined benefits scheme; or choosing 'classic plus', whereby they transferred to 'premium' but only in respect of service after 1 October 2002. New entrants after 1 October 2002 have been able to choose between membership of 'premium' or joining a good quality 'money purchase' stakeholder based arrangement with a significant employer contribution (partnership pension account).

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 2003. 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 dependant'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 2005-2006, employers' contributions of £688,761 were payable to the PCSPS (2004-2005 £490,471) at one of four rates in the range of 12 to 18.5 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 subject to revalorisation of the salary bands but will increase from 2005-2006. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

National Health Service Pension Scheme (NHSPS)

The Hospital participates in the NHS pension scheme which is an unfunded multi-employer defined benefit scheme, but the Hospital is unable to identify its share of the underlying assets and liabilities. The scheme is subject to a full valuation every four years. The last valuation took place as at 31 March 2003. 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.nhspa.gov.uk. This is a statutory, defined benefit scheme, the provisions of which are contained in the NHS Pension Scheme Regulations (SI 1995 No. 300). Under these regulations the Hospital is required to pay an employer's contribution, currently 14% of pensionable pay, as specified by the Secretary of State for Health. For 2005-2006, employers' contributions of £189,697 were payable to the NHS Pension Scheme (£189,277 for 2004-2005). These contributions are charged to operating expenses as and when they become due.

Employees pay 6% 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 20 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 £46,853 (2005: £58,241) including lump sum payments of £nil. (2005: £12,023).

Financial Reporting Standard 17 (FRS 17) – Retirement Benefits

The latest FRS17 valuation of the liabilities in respect of the unfunded pension entitlements was carried out as at 31 March 2006, by an independent qualified actuary, using the key FRS17 assumptions set out in the following table. The table also sets out as at 31 March 2005 and 31 March 2006 the present value of the FRS17 liabilities, which is equal to the gross pension liability.

Assumptions	31 March 2006	31 March 2005
Price inflation	3.0% pa	2.9% pa
Pension increases	3.0% pa	1.7% pa
Discount rate	5.0% pa	5.4% pa

Balance sheet (£000)	31 March 2006	31 March 2005
Gross pension liability	514	515

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

	Year to 31 March 2006 £000	Year to 31 March 2005 £000
Gross Pension liability at year start	515	526
Current service cost	0	1
Pensions paid	(47)	(58)
Pensions finance costs/(income)	27	27
Actuarial loss on defined benefit pension scheme	19	19
Gross pension liability at year end	514	515

The following amounts have been included within operating profit under FRS17 and have been allocated across the 'resources expended' categories of the SOFA

	Year to 31 March 2006 £000	Year to 31 March 2005 £000
Current service cost	0	1
Past service cost	0	0
Total operating charge	0	1

The following amounts have been included as a charge to pension finance costs and have been allocated across the "resources expended" categories of the SOFA

	Year to 31 March 2006 £000	Year to 31 March 2005 £000
Interest on gross pension liability	27	27

The following amounts have been recognised within the 'other recognised gains/losses' categories of the SOFA under the heading 'actuarial gains and losses on defined benefit pension scheme'

	Year to 31 March 2006 £000	Year to 31 March 2005 £000
Experience gains and (losses) arising on liabilities	2	(13)
Gain or (loss) due to changes in assumptions underlying the present value of liabilities	(21)	(6)
Actuarial gain/(loss) recognised in the SOFA	(19)	(19)

The history of gains and losses is as follows

	Year to 31 March 2006	Year to 31 March 2005
Experience gains/(losses) on liabilities (£000)	2	(13)
Percentage of the present value of liabilities	0%	(3%)
Total amount of gains and losses (£000)	(19)	(19)
Percentage of the present value of liabilities	(4%)	(4%)

30 Financing lease

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

	£
Within one year	46,488
Two to five years	224,690
Total	271,178

31 Operating leases

Rentals payable under operating leases are charged to the Statement of Financial Activities as incurred over the term of the lease.

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

	Land and buildings 2006 £	Other 2006 £	Land and buildings 2005 £	Other 2005 £
Operating leases which expire				
Within one year	0	40,907	0	96,572
In the second to fifth years inclusive	0	64,132	0	0
Over five years	0	0	0	0

32 Capital commitments

	2006 £	2005 £
Authorised but not contracted	462,500	1,628,440
Authorised and contracted	708,482	2,019,487
	1,170,982	3,647,927

33 Restricted funds

a Army Prize Money and Legacy Fund

The sum of £53,693 is held as a restricted fund on behalf of the Royal Hospital Chelsea Chapel fund.

b Subsidiaries

Chelsea Pensioner (RH) Limited

This company holds a low level of reserves and has no restricted funds. Most of its profits are paid directly to Royal Hospital Appeal Limited (formerly Chelsea Pensioners 2000 Limited) under the gift aid rules.

Royal Hospital Chelsea Appeal Limited (formerly Chelsea Pensioners 2000 Limited)

This company held restricted funds amounting to £4,000,000 intended for use in funding building work as part of the redevelopment plan of the Royal Hospital.

34 Derivatives and Other Financial Instruments

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

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

During 2005-06 the fund managers were required to perform against a number of benchmark indices. In aggregate the fund is compared on a total return basis with the FT All-Share Index, the FT All Stock Index, Cash Deposit and Wood MacKenzie Unconstrained (ex-Property) Charities Benchmark.

Interest rate risk

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

Currency risk

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

Market price risk

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

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

35 Post Balance Sheet events

There were no post balance sheet events.

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DG Ref: E15122 6815RC

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