

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

Royal Hospital Chelsea Account 2004-2005

ORDERED BY THE HOUSE OF COMMONS TO BE PRINTED 11 OCTOBER 2005

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Contents

| | Page |
|---|------|
| Officers and Commissioners | 2 |
| Foreword | 3 |
| Lieutenant Governor's Report | 5 |
| Statement on Internal Control | 6 |
| The Certificate and Report of the Comptroller and Auditor General | 8 |
| Consolidated Statement of Financial Activities | 10 |
| Consolidated Balance Sheet | 12 |
| Royal Hospital Chelsea Balance Sheet | 13 |
| Consolidated Cash Flow Statement | 14 |
| Notes to the Financial Statements | 15 |

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

Sir Michael Craig-Cooper CBE TD DL FCI Arb
Mrs R Corben
Sir Nigel Mobbs JP
IW Frazer FCA
Mr M Gainsborough
The Rt Hon Lord Glenarthur DL
MD Drury CBE FSA
Mr R Hunting
The Hon David McAlpine (from 1 April 2004)
Countess Cadogan MVO (from 1 April 2004)

Lieutenant Governor and Accounting Officer

Major General JMFC Hall CB OBE

Auditor

The Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
London SW1W 9SP

Solicitors

Taylor Wessing
Carmelite
50 Victoria Embankment
Blackfriars
London EC4Y 0DX

Investment Managers

HSBC Investment Management
6 Bevis Marks
London EC3A 7JQ

Property Managers

cordeaSavills
20 Grosvenor Hill
London W1K 3HQ

Bankers

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

Works Consultants

Capita Symonds Limited
61-71 Victoria Street
Westminster
London SW1H 0XA

Foreword and Commissioners' Report

History

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.

Statutory background

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 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. 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.

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.

Whilst support for the In-Pensioners remains the Royal Hospital's principal task, it is also responsible for the conservation of its buildings and grounds. The cost of 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 256 full and part-time of whom 91 are medical and nursing staff.

Review of activities and events held during the financial year

The Development Plan to modernise the key facilities of the Royal Hospital – the Infirmary and the Long Ward accommodation – continues. Existing Long Ward accommodation was converted into a temporary infirmary and was occupied in December 2004. The 1960s Infirmary was evacuated at the same time and will soon be demolished. Planning permission for the new Infirmary was received on 9 June 2005, slightly later than anticipated, and it is unlikely to be ready before the end of 2007. Plans continue to be developed for modernisation of the Long Wards to follow once the new Infirmary is operational.

The Development Plan will be funded by a £35 million appeal known as "The Chelsea Pensioners' Appeal", and is being run by one of the Royal Hospital's subsidiary companies, Royal Hospital Chelsea Appeal Limited. There is a small full-time team (funded by the Appeal) and an external voluntary executive committee headed by Lord Salisbury. Further details of the company are given in note 6 to the financial accounts. The Patron of the Appeal is the Prince of Wales.

During the year, the project to replace the gardeners' facilities and glass houses was completed. Also, the Royal Hospital's ageing main gas and water pipes were replaced with modern systems.

Increased use of the Royal Hospital's historic buildings and grounds continues to be made for income-generating events. During the last year these have included the Royal Horticultural Society Chelsea Flower Show, the Decorex International interior design exhibition, the artLondon Exhibition and Ultimate Experience corporate hospitality functions. The Royal Hospital has provided the venue for some Chelsea Festival concerts as well as running its own series of concerts in November 2004. The income that is generated through these events is accounted for in the Royal Hospital's trading subsidiary, Chelsea Pensioner (RH) Limited. Further details are given in note 6 to the financial statements.

Market value of 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 £313.4 million on a depreciated replacement cost basis.

Investment policy

The Commissioners' financial responsibilities are contained in the Letters Patent which grant them wide discretionary powers. 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.

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 19 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 £515,000.

Fund deficit

The deficit of £314,671 carried forward in the Grant in Aid fund is a result of the pension liability mentioned above.

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.

The purpose of the Royal Hospital remains the same as that intended by its Royal Founder King Charles II - to provide a happy home for the nation's former soldiers who are admitted as In-Pensioners.

Audit arrangements

The accounts of the Royal Hospital are audited by the Comptroller and Auditor General in accordance with the Letters Patent dated 23 November 2003 under Section 43 of the Charities Act 1993. An audit fee of £28,200 has been charged for the audit and is included in the Management and Administration cost of the Hospital. No non-audit work was carried out on behalf of the Hospital in 2004-2005.

Lieutenant Governor's report

The Royal Hospital continues successfully to undertake the task for which it was founded by King Charles II. It has two core objectives, which are developed in the Royal Hospital's Corporate Plan: the primary objective is to care effectively for In-Pensioners, and the second objective is to manage the Royal Hospital's estate efficiently, including providing public access. The Royal Hospital is also committed to modernising and improving its administration to ensure that it is accountable, transparent and consistent in the way that it goes about its business, meets Care Standards and recent legislation, and embraces best practice to achieve this.

Review of activities and events held during the financial year

These are shown on page 3 above in the Foreword and Commissioners' statement.

Risk management

The Risk Assessment Register continues to be updated. The Commissioners have examined the principal areas of the Royal Hospital's operations and considered the major risks faced in each of these areas.

In the opinion of the Commissioners, the Royal Hospital has established an effective review system and allocated sufficient resources to ensure that those risks identified have been mitigated to a level acceptable for the Hospital's day-to-day operations.

Future strategy

The implementation of the Development Plan and the supporting fundraising and income generation programmes will remain the centrepiece of the Royal Hospital's forward planning. But there are also a number of other major projects planned, including improvement of disabled access, refurbishment of the Great Hall, Octagon and Chapel and upgrading of external lighting. Progress on these projects will depend on the availability of funding.

Work continues on various aspects of risk management, including further development of the Business Continuity Plan. A major review is being undertaken into the long term funding and manning of the Royal Hospital including In-Pensioner recruitment and the costs and charges to In-Pensioners for non-core services, entitlements and benefits.

Responsibilities for the financial statements

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 income and expenditure and cash flows 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 2000.

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 2005 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 qualification;
- 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.

JMFC Hall CB OBE

28 July 2005

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

I have audited the financial statements on pages 10 to 31. 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 15 to 16.

Respective responsibilities of the Commissioners, the Lieutenant Governor and the Auditor

As described on page 5, the Commissioners and the Lieutenant Governor, as Accounting Officer, are responsible for the preparation of financial statements and for ensuring the regularity of financial transactions. The Commissioners and the Lieutenant Governor are also responsible for the preparation of the Foreword. In discharging my responsibilities, as independent auditor, I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession. 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 Foreword 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 6 to 7 reflects the Hospital'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 I am aware of 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 Hospital's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards 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 Lieutenant Governor in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Hospital and the group 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.

Opinion

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 2005 and of the incoming resources and application of resources of the group for the year then ended and 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.

John Bourn
Comptroller and Auditor General

28 July 2005

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

Consolidated Statement of Financial Activities for the year ended 31 March 2005

| | Notes | Grant in Aid fund £ | Army prize money and legacy fund £ | Total group funds 2005 £ | Total funds 2004 £ |
|--|-------|------------------------|---------------------------------------|-----------------------------|-----------------------|
| Incoming resources | | | | | |
| Government Grant in Aid | 2 | 9,610,000 | 0 | 9,610,000 | 9,570,000 |
| Donations and legacies | 3 | 0 | 798,895 | 798,895 | 426,889 |
| Income from listed investments | | 0 | 350,903 | 350,903 | 335,127 |
| Income from investment properties | 4 | 0 | 720,764 | 720,764 | 496,649 |
| Income from trading activities | 5 | 0 | 18,465 | 18,465 | 26,855 |
| Income from subsidiaries | 6 | 0 | 6,697,504 | 6,697,504 | 1,356,752 |
| Income from other sources | 7 | 762,522 | 121,099 | 883,621 | 580,973 |
| Total income | | <u>10,372,522</u> | <u>8,707,630</u> | 19,080,152 | <u>12,793,245</u> |
| Less cost of generating funds | | | | | |
| Fundraising and publicity | 15 | 241,549 | 80,528 | 322,077 | 141,300 |
| Expenditure of subsidiaries | 6 | 0 | 425,421 | 425,421 | 375,743 |
| Cost of trading | 5 | 0 | 15,871 | 15,871 | 25,028 |
| Net incoming resources available for charitable application | | <u>10,130,973</u> | <u>8,185,810</u> | 18,316,783 | <u>12,251,174</u> |
| Resources expended | | | | | |
| <i>Direct charitable expenditure</i> | | | | | |
| Medical and outpatients | 8 | 459,655 | 0 | 459,655 | 474,354 |
| Nursing care | 9 | 2,228,479 | 3,822 | 2,232,301 | 2,174,829 |
| Welfare and ceremonial | 10 | 812,228 | 171,779 | 984,007 | 945,740 |
| Domestic support | 11 | 2,770,313 | 59,981 | 2,830,294 | 2,803,165 |
| Administrative support | 12 | 1,196,113 | 147,544 | 1,343,657 | 1,311,650 |
| Maintenance of grounds | 13 | 195,747 | 172,221 | 367,968 | 291,087 |
| Buildings maintenance | 14 | 1,380,601 | 12,014 | 1,392,615 | 1,292,554 |
| Development projects | 16 | 73,961 | 1,596 | 75,557 | 112,063 |
| Depreciation | 21 | 83,914 | 2,314,539 | 2,398,453 | 2,347,547 |
| Pension finance costs | 29 | 27,000 | 0 | 27,000 | 27,000 |
| | | <u>9,228,011</u> | <u>2,883,496</u> | 12,111,507 | <u>11,779,989</u> |
| Management and administration | 17 | 124,780 | 104,337 | 229,117 | 212,079 |
| Total charitable expenditure | | <u>9,352,791</u> | <u>2,987,833</u> | 12,340,624 | <u>11,992,068</u> |
| Total resources expended | | 9,594,340 | 3,509,653 | 13,103,993 | 12,534,139 |
| Net incoming/(outgoing) resources before transfers | | 778,182 | 5,197,977 | 5,976,159 | 259,106 |
| Transfers between funds | 20 | (2,031,446) | 2,031,446 | 0 | 0 |
| Net incoming/(outgoing) resources for the year | | <u>(1,253,264)</u> | <u>7,229,423</u> | 5,976,159 | <u>259,106</u> |

Consolidated Statement of Financial Activities for the year ended 31 March 2005 *(continued)*

| | Notes | Grant in Aid fund £ | Army prize money and legacy fund £ | Total group funds 2005 £ | Total funds 2004 £ |
|---|-------|------------------------------|--|---|-----------------------------|
| Realised gains (losses) | | 0 | (315,336) | (315,336) | (237,240) |
| Unrealised gains/(losses) | 19 | 0 | 1,162,340 | 1,162,340 | 1,889,580 |
| Actuarial gains/(losses) on defined benefit scheme | 29 | (19,000) | 0 | (19,000) | (26,000) |
| Net movement in funds | | (1,272,264) | 8,076,427 | 6,804,163 | 1,885,446 |
| Funds brought forward at 1 April 2004 | | 957,593 | 330,946,657 | 331,904,250 | 330,018,804 |
| Funds carried forward at 31 March 2005 | | (314,671) | 339,023,084 | 338,708,413 | 331,904,250 |

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 2005

| | Notes | £ | Total group funds 2005 £ | 2004 £ |
|---|-------|--------------------|-----------------------------|-------------|
| Fixed assets | | | | |
| Tangible assets | 21 | | 313,405,089 | 312,407,695 |
| Listed investments | 22 | | 9,805,935 | 9,426,826 |
| Investment property | 23 | | 8,287,000 | 8,287,000 |
| | | | 331,498,024 | 330,121,521 |
| Current assets | | | | |
| Stocks | 24 | 138,231 | | 145,397 |
| Debtors | 25 | 599,693 | | 113,429 |
| Cash at bank and in hand | 26 | 8,241,502 | | 3,143,940 |
| | | 8,979,426 | | 3,402,766 |
| Creditors: amounts falling due within one year | 27 | (1,006,275) | | (861,366) |
| Net current assets | | | 7,973,151 | 2,541,400 |
| Total assets less current liabilities | | | 339,471,175 | 332,662,921 |
| Creditors: amounts falling due over one year | 28 | | (247,762) | (232,671) |
| Total assets before pension liability | | | 339,223,413 | 332,430,250 |
| Pension liability | 29 | | (515,000) | (526,000) |
| Total assets less liabilities | | | 338,708,413 | 331,904,250 |
| Reserves | | | | |
| Grant in Aid fund | | | (314,671) | 957,593 |
| Army Prize Money and Legacy Fund: Hospital Funds | | 333,334,667 | | 330,063,139 |
| Funds retained in Royal Hospital Chelsea Appeal Ltd | | 5,680,945 | | 880,795 |
| Funds retained in Chelsea Pensioner (RH) Ltd | | 7,472 | | 2,723 |
| Consolidated Army Prize Money and Legacy Fund | | | 339,023,084 | 330,946,657 |
| | | | 338,708,413 | 331,904,250 |

Approved by the following three Commissioners on 28 July 2005

The Rt Hon Lord Glenarthur DL

R Hunting

IW Frazer FCA

Royal Hospital Chelsea Balance Sheet as at 31 March 2005

| | Notes | Grant in Aid fund | Army prize money and legacy fund | Total Hospital funds 2005 | Total funds 2004 |
|--|-------|-------------------------|--|--|------------------------|
| | | £ | £ | £ | £ |
| Fixed assets | | | | | |
| Tangible assets | 21 | 323,591 | 313,072,496 | 313,396,087 | 312,407,695 |
| Listed investments | 22 | 0 | 9,805,935 | 9,805,935 | 9,426,826 |
| Investment property | 23 | 0 | 8,287,000 | 8,287,000 | 8,287,000 |
| | | <u>323,591</u> | <u>331,165,431</u> | <u>331,489,022</u> | <u>330,121,521</u> |
| Current assets | | | | | |
| Stocks | 24 | 65,276 | 6,500 | 71,776 | 112,386 |
| Debtors | 25 | 59,964 | 100,900 | 160,864 | 92,759 |
| Cash at bank and in hand | 26 | 4,574 | 2,559,340 | 2,563,914 | 1,977,415 |
| | | <u>129,814</u> | <u>2,666,740</u> | <u>2,796,554</u> | <u>2,182,560</u> |
| Creditors: amounts falling due within one year | 27 | (253,076) | (249,742) | (502,818) | (524,678) |
| Net current assets | | <u>(123,262)</u> | <u>2,416,998</u> | <u>2,293,736</u> | <u>1,657,882</u> |
| Total assets less current liabilities | | <u>200,329</u> | <u>333,582,429</u> | <u>333,782,758</u> | <u>331,779,403</u> |
| Long term creditors | 28 | 0 | (247,762) | (247,762) | (232,671) |
| Net assets before pension liability | | <u>200,329</u> | <u>333,334,667</u> | <u>333,534,996</u> | <u>331,546,732</u> |
| Pension liability | 29 | (515,000) | 0 | (515,000) | (526,000) |
| Total assets less current liabilities | | <u>(314,671)</u> | <u>333,334,667</u> | <u>333,019,996</u> | <u>331,020,732</u> |
| Reserves | | | | | |
| Grant in Aid fund | | (314,671) | 0 | (314,671) | 957,593 |
| Army Prize and Legacy fund | | 0 | 333,334,667 | 333,334,667 | 330,063,139 |
| | | <u>(314,671)</u> | <u>333,334,667</u> | <u>333,019,996</u> | <u>331,020,732</u> |

Consolidated Cash Flow Statement for the year ended 31 March 2005

| | Grant in Aid fund | Army Prize money and legacy fund | Total group funds | Total funds 2004 |
|---|----------------------|---|------------------------------|---------------------|
| | £ | £ | £ | £ |
| Net cash flow from operating activities | 940,968 | 6,003,010 | 6,943,978 | 1,878,134 |
| Returns on investment | | | | |
| Interest received | 22,637 | 29,093 | 51,730 | 41,050 |
| Dividends received | 0 | 309,043 | 309,043 | 335,127 |
| Rent received from investment properties | 0 | 720,764 | 720,764 | 496,649 |
| | <u>22,637</u> | <u>1,058,900</u> | <u>1,081,537</u> | <u>872,826</u> |
| Capital expenditure and financial investment | | | | |
| Payments to acquire listed investments | 0 | (1,203,088) | (1,203,088) | (1,336,996) |
| Receipts from sales of listed investments | 0 | 1,670,983 | 1,670,983 | 773,690 |
| Payments to acquire tangible fixed assets | (87,980) | (3,307,868) | (3,395,848) | (1,358,570) |
| | <u>(87,980)</u> | <u>(2,839,973)</u> | <u>(2,927,953)</u> | <u>(1,921,876)</u> |
| Management of liquid resources | 0 | (2,050,000) | (2,050,000) | 1,120,000 |
| Transfer between reserves | 2,031,446 | (2,031,446) | 0 | 0 |
| | <u>2,031,446</u> | <u>(2,031,446)</u> | <u>0</u> | <u>0</u> |
| Increase/(decrease) in cash | <u>2,907,071</u> | <u>140,491</u> | <u>3,047,562</u> | <u>1,949,084</u> |

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

| | £ | £ | £ | £ |
|--|----------------|------------------|-------------------------|------------------|
| Net incoming/(outgoing) resources before transfers | 778,182 | 5,197,977 | 5,976,159 | 259,106 |
| Interest receivable | (22,637) | (29,093) | (51,730) | (41,050) |
| Income from listed investments | 0 | (350,903) | (350,903) | (335,127) |
| Income from investment properties | 0 | (720,764) | (720,764) | (496,649) |
| Depreciation | 83,915 | 2,314,538 | 2,398,453 | 2,347,547 |
| Decrease/(increase) in stocks | 47,110 | (39,945) | 7,165 | 54,891 |
| Decrease/(increase) in debtors | 32,796 | (477,199) | (444,403) | (2,231) |
| Increase/(decrease) in creditors | 51,602 | 108,399 | 160,001 | 100,750 |
| Loss on sale of fixed assets | 0 | 0 | 0 | (103) |
| (Increase)/decrease in pension finance costs | (30,000) | 0 | (30,000) | (9,000) |
| | <u>940,968</u> | <u>6,003,010</u> | <u>6,943,978</u> | <u>1,878,134</u> |

Analysis of changes in net funds

| | At 1 April 2004 | Cash flow | At 31 March 2005 |
|------------------------------------|--------------------|------------------|-----------------------------|
| | £ | £ | £ |
| Term deposits ('liquid resources') | 0 | 2,050,000 | 2,050,000 |
| Other accounts and cash in hand | 3,143,940 | 3,047,562 | 6,191,502 |
| Total | <u>3,143,940</u> | <u>5,097,562</u> | <u>8,241,502</u> |

Notes to the Financial Statements

1 Accounting policies

a Basis of accounting

These financial statements consolidate those that were reported previously as the Grant in Aid Account and the Army Prize Money and Legacy Fund. The financial statements have been prepared in accordance with applicable accounting standards, under the historical cost convention as modified by the revaluation of certain fixed assets, and in accordance with the Statement of Recommended Practice: Accounting by Charities ('the Charities SORP') issued in October 2000 and applicable United Kingdom Accounting Standards.

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 required to comply with the reporting requirements of the Hospital's governing legislation and the Ministry of Defence.

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 is registered for VAT and is able to recover a proportion of input tax. Irrecoverable VAT is included in the SOFA with the item to which it relates.

2 Government Grant in Aid

| | 2005 | 2004 |
|-----------------------|-------------------------|------------------|
| | £ | £ |
| Grant in Aid received | <u>9,610,000</u> | <u>9,570,000</u> |

3 Donations and legacies

| | Total funds 2005 | Total funds 2004 |
|--------------------|-------------------------|------------------|
| | £ | £ |
| Donations received | <u>798,895</u> | <u>426,889</u> |

Donations and legacies include £257,280 (2004: £126,690) received from the EH Dashwood Estate. The Hospital is entitled to 25% 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 2004. All donations are credited to the Army Prize Money & Legacy Fund.

4 Income from investment properties

| Total funds 2005 £ | Total funds 2004 £ |
|---------------------------------------|-----------------------------|
| 720,764 | 496,649 |

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 £720,763 shown as income from investment properties includes £460,414 paid to the Hospital in respect of such Premiums (£254,674 in 2003-2004).

5 Income from trading activities

The net profit for the year for the Prince of Wales Hall shop operated by the In-Pensioners was £2,594 (2004: £1,827). All income and expenditure relates to the Army Prize Money and Legacy Fund.

| | 2005 | 2004 |
|------------------------|---------------|--------|
| Turnover | 18,465 | 26,855 |
| Cost of sales | 15,871 | 25,028 |
| Net profit/loss | 2,594 | 1,827 |

6 Subsidiary companies

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

| | Group 2005 | Total funds 2004 |
|---|-----------------------|---------------------|
| | £ | £ |
| Income | 6,697,504 | 1,356,752 |
| Expenditure | (425,421) | (375,743) |
| | 6,272,083 | 981,009 |
| Paid to Army Prize and Legacy fund | (1,468,499) | (400,000) |
| | 4,803,584 | 581,009 |
| Fixed assets | 9,002 | 0 |
| Stock | 66,455 | 33,011 |
| Debtors | 438,829 | 20,670 |
| Cash | 5,677,588 | 1,166,525 |
| | 6,191,874 | 1,220,206 |
| Creditors: less than one year | (503,457) | (336,688) |
| Net assets and funds carried forward | 5,688,417 | 883,518 |

7 Income from other sources

| | Grant in Aid fund | Army prize money and legacy fund | Total funds 2005 | Total funds 2004 |
|-----------------------------|-------------------------|---|---------------------------------|------------------------|
| | £ | £ | £ | £ |
| Post Office funding | 14,941 | 0 | 14,941 | 13,011 |
| Staff accommodation charges | 216,833 | 0 | 216,833 | 229,547 |
| Family practice | 114,125 | 0 | 114,125 | 92,867 |
| Meal charges | 71,411 | 0 | 71,411 | 70,493 |
| Miscellaneous income | 213,076 | 65,851 | 278,927 | 175,055 |
| Recoveries | 132,136 | 55,248 | 187,384 | 0 |
| | 762,522 | 121,099 | 883,621 | 580,973 |

8 Medical and outpatients

| | Grant in Aid fund | Army prize money and legacy fund | Total funds 2005 | Total funds 2004 |
|----------------------------|-------------------------|---|---------------------------------|------------------------|
| | £ | £ | £ | £ |
| Staff costs | 324,474 | 0 | 324,474 | 306,396 |
| Staff support and training | 644 | 0 | 644 | 1,465 |
| Drugs and consumables | 67,593 | 0 | 67,593 | 91,920 |
| Specialist services | 45,841 | 0 | 45,841 | 57,861 |
| Office overheads | 5,008 | 0 | 5,008 | 4,474 |
| Other expenses | 16,095 | 0 | 16,095 | 12,238 |
| | <u>459,655</u> | <u>0</u> | <u>459,655</u> | <u>474,354</u> |

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

9 Nursing care

| | Grant in Aid fund | Army prize money and legacy fund | Total funds 2005 | Total funds 2004 |
|----------------------------|-------------------------|---|---------------------------------|------------------------|
| | £ | £ | £ | £ |
| Staff costs | 2,165,058 | 0 | 2,165,058 | 2,143,174 |
| Staff support and training | 48,441 | 0 | 48,441 | 13,483 |
| Other costs | 14,980 | 3,822 | 18,802 | 18,172 |
| | <u>2,228,479</u> | <u>3,822</u> | <u>2,232,301</u> | <u>2,174,829</u> |

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

10 Welfare and ceremonial costs

| | Grant in Aid fund | Army prize money and legacy fund | Total funds 2005 | Total funds 2004 |
|---|-------------------------|---|---------------------------------|------------------------|
| | £ | £ | £ | £ |
| Staff costs | 780,260 | 15,513 | 795,773 | 769,592 |
| Staff support and training | 9,793 | 30 | 9,823 | 3,723 |
| In-Pensioners' travel and entertainment | 12,849 | 6,022 | 18,871 | 8,675 |
| Other expenditure | 9,326 | 150,214 | 159,540 | 163,750 |
| | <u>812,228</u> | <u>171,779</u> | <u>984,007</u> | <u>945,740</u> |

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

11 Domestic support costs

| | Grant in Aid fund | Army prize money and legacy fund | Total funds 2005 | Total funds 2004 |
|------------------------------------|-------------------------|---|---------------------------------|------------------------|
| | £ | £ | £ | £ |
| Staff costs | 1,677,534 | 0 | 1,677,534 | 1,643,173 |
| Staff support and training | 8,045 | 0 | 8,045 | 9,338 |
| Supplies, services and consumables | 533,423 | 59,981 | 593,404 | 542,617 |
| Clothing | 79,925 | 0 | 79,925 | 115,923 |
| Rations | 467,785 | 0 | 467,785 | 488,880 |
| Office overheads | 3,601 | 0 | 3,601 | 3,234 |
| | <u>2,770,313</u> | <u>59,981</u> | <u>2,830,294</u> | <u>2,803,165</u> |

The above costs were incurred in the Quartermaster's department. Included in supplies, services and consumables is an amount of £126,561 in respect of operating lease rentals on the hire of a vehicle and plant and machinery.

12 Administrative support costs

| | Grant in Aid fund | Army prize money and legacy fund | Total funds 2005 | Total funds 2004 |
|-------------------------------------|-------------------------|---|---------------------------------|------------------------|
| | £ | £ | £ | £ |
| Staff costs | 822,432 | 1,597 | 824,029 | 798,116 |
| Staff support and training | 66,342 | 4,266 | 70,608 | 72,878 |
| Consumables and picture maintenance | 177,847 | 129,607 | 307,454 | 258,110 |
| Office overheads | 3,244 | 2,708 | 5,952 | 52,165 |
| Council tax | 61,748 | 0 | 61,748 | 55,928 |
| Donations made | 0 | 1,225 | 1,225 | 1,771 |
| Miscellaneous | 64,500 | 8,141 | 72,641 | 72,682 |
| | <u>1,196,113</u> | <u>147,544</u> | <u>1,343,657</u> | <u>1,311,650</u> |

The above costs were incurred in the Secretary's department.

13 Grounds maintenance

| | Grant in Aid fund | Army prize money and legacy fund | Total funds 2005 | Total funds 2004 |
|-------------------|-------------------------|---|---------------------------------|------------------------|
| | £ | £ | £ | £ |
| Staff costs | 195,747 | 0 | 195,747 | 212,666 |
| Other expenditure | 0 | 172,221 | 172,221 | 78,421 |
| | <u>195,747</u> | <u>172,221</u> | <u>367,968</u> | <u>291,087</u> |

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

14 Building maintenance and utilities

| | Grant in Aid fund | Army prize money and legacy fund | Total funds 2005 | Total funds 2004 |
|----------------------------|-------------------------|---|---------------------------------|------------------------|
| | £ | £ | £ | £ |
| Staff costs | 572,989 | 0 | 572,989 | 565,551 |
| Staff support and training | 9,862 | 0 | 9,862 | 2,000 |
| Utilities | 246,412 | 0 | 246,412 | 287,139 |
| Maintenance | 518,492 | 4,369 | 522,861 | 377,814 |
| Other services | 31,481 | 7,645 | 39,126 | 57,676 |
| Office overheads | 1,365 | 0 | 1,365 | 2,374 |
| | <u>1,380,601</u> | <u>12,014</u> | <u>1,392,615</u> | <u>1,292,554</u> |

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.

15 Fundraising and publicity

| | Grant in Aid fund | Army prize money and legacy fund | Total funds 2005 | Total funds 2004 |
|----------------------------|-------------------------|---|---------------------------------|------------------------|
| | £ | £ | £ | £ |
| Staff costs | 239,685 | 0 | 239,685 | 102,779 |
| Staff support and training | 0 | 326 | 326 | 0 |
| Other costs | 1,864 | 80,202 | 82,066 | 38,521 |
| | <u>241,549</u> | <u>80,528</u> | <u>322,077</u> | <u>141,300</u> |

The above costs were incurred in the Events department.

16 Development projects

| | Grant in Aid fund | Army prize money and legacy fund | Total funds 2005 | Total funds 2004 |
|----------------------------|-------------------------|---|---------------------------------|------------------------|
| | £ | £ | £ | £ |
| Staff costs | 72,762 | 0 | 72,762 | 102,317 |
| Staff support and training | 0 | 0 | 0 | 400 |
| Other costs | 1,199 | 1,596 | 2,795 | 9,346 |
| | <u>73,961</u> | <u>1,596</u> | <u>75,557</u> | <u>112,063</u> |

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

17 Management and administration

| | Grant in Aid fund | Army prize money and legacy fund | Total funds 2005 | Total funds 2004 |
|-----------------------------|-------------------------|---|---------------------------------|------------------------|
| | £ | £ | £ | £ |
| Staff costs | 53,672 | 0 | 53,672 | 53,409 |
| Hospitality | 2,274 | 19,558 | 21,832 | 26,583 |
| Legal and professional fees | 68,834 | 84,779 | 153,613 | 132,087 |
| | <u>124,780</u> | <u>104,337</u> | <u>229,117</u> | <u>212,079</u> |

Legal and professional fees include the Auditor's remuneration. The actual fee including VAT charged by the National Audit Office for the audit of the Hospital's consolidated financial statements was £28,200 (2004: £27,612).

18 Staff costs and numbers; Commissioners' emoluments

| | Grant in Aid fund | Army prize money and legacy fund | Subsidiaries | Total funds 2005 | Total funds 2004 restated |
|-----------------------|-------------------------|---|----------------|---------------------------------|------------------------------------|
| | £ | £ | £ | £ | £ |
| Salaries and wages | 5,431,840 | 0 | 134,125 | 5,565,965 | 5,345,879 |
| Social security costs | 414,733 | 0 | 9,333 | 424,066 | 406,582 |
| Pension costs | 678,666 | 0 | 14,982 | 693,648 | 589,543 |
| | <u>6,525,239</u> | <u>0</u> | <u>158,440</u> | <u>6,683,679</u> | <u>6,342,004</u> |
| Casual and agency pay | 161,220 | 0 | 0 | 161,220 | 271,609 |
| In-pensioner pay | 61,310 | 15,513 | 0 | 76,823 | 83,560 |
| | <u>6,747,769</u> | <u>15,513</u> | <u>158,440</u> | <u>6,921,722</u> | <u>6,697,173</u> |

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

| | Grant in Aid fund | Army prize money and legacy fund | Total funds 2005 | Total funds 2004 restated |
|-------------------------------------|-------------------------|---|---------------------------------|------------------------------------|
| | £ | £ | £ | £ |
| Medical and outpatients | 324,474 | 0 | 324,474 | 306,396 |
| Nursing care | 2,165,058 | 0 | 2,165,058 | 2,143,174 |
| Welfare and ceremonial costs | 780,259 | 15,513 | 795,772 | 769,592 |
| Domestic support costs | 1,677,534 | 0 | 1,677,534 | 1,643,173 |
| Administrative support costs | 824,029 | 0 | 824,029 | 798,116 |
| Grounds maintenance | 195,747 | 0 | 195,747 | 212,666 |
| Buildings maintenance and utilities | 572,989 | 0 | 572,989 | 565,551 |
| Project management | 72,762 | 0 | 72,762 | 102,317 |
| Fundraising and publicity | 239,685 | 0 | 239,685 | 102,779 |
| Management and administration | 53,672 | 0 | 53,672 | 53,409 |
| | <u>6,906,209</u> | <u>15,513</u> | <u>6,921,722</u> | <u>6,697,173</u> |

The average monthly number of staff by department was as follows

| | Part time | 2005 Full time | Total | 2004 Total |
|---------------------------|-----------|-------------------|--------------|---------------|
| Infirmery and outpatients | 0 | 9 | 9 | 10 |
| Nursing | 11 | 71 | 82 | 91 |
| Adjutant | 2 | 25 | 27 | 26 |
| Quartermaster | 9 | 64 | 73 | 76 |
| Secretary | 0 | 5 | 5 | 5 |
| Chaplain | 2 | 1 | 3 | 3 |
| Finance | 0 | 4 | 4 | 5 |
| Personnel and Post Office | 3 | 5 | 8 | 9 |
| Administration office | 0 | 4 | 4 | 4 |
| Superintendent of grounds | 1 | 9 | 10 | 10 |
| Surveyor of works | 0 | 22 | 22 | 16 |
| Events | 0 | 4 | 4 | 4 |
| Development | 0 | 2 | 2 | 3 |
| Fundraising | 0 | 3 | 3 | 1 |
| | 28 | 228 | 256 | 263 |

Higher paid employees

Excluding the Governor and Lieutenant Governor, the number of employees whose remuneration was over £50,000 per annum (excluding pension contributions) was as follows

| | 2005 Number | 2004 Number |
|--------------------|------------------------|----------------|
| £50,000 to £59,999 | 3 | 1 |
| £60,000 to £69,999 | 1 | 1 |
| | 4 | 2 |

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> | 64 | 75-80 | 0-2.5 | 5-10 | 81 | 98 | 13 |
| Major General JMFC Hall <i>Lieutenant Governor and Chief Executive</i> | 60 | 55-60 | 0-2.5 | 5-10 | 66 | 86 | 20 |

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)

| | 2005 £ | 2004 £ |
|-----------------------------------|-------------------------|------------------|
| Revaluation of listed investments | 1,162,340 | 1,889,580 |
| | <u>1,162,340</u> | <u>1,889,580</u> |

20 Transfers between funds

| Grant in Aid fund £ | Army prize money and legacy fund £ |
|------------------------|---------------------------------------|
| (2,031,446) | 2,031,446 |
| <u>(2,031,446)</u> | <u>2,031,446</u> |

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

| | 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 2004 | 941,104 | 274,366,328 | 41,038,577 | 895,347 | 130,924 | 55,555 | 317,427,835 |
| Additions at cost | 900,983 | 841,322 | 1,069,762 | 583,781 | 0 | 0 | 3,395,848 |
| Reclassifications | (595,771) | 184,502 | 411,269 | 0 | 0 | 0 | 0 |
| Disposals | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| At 31 March 2005 | 1,246,316 | 275,392,152 | 42,519,608 | 1,479,128 | 130,924 | 55,555 | 320,823,683 |
| Depreciation | | | | | | | |
| At 1 April 2004 | 0 | 3,025,022 | 1,398,443 | 554,143 | 42,533 | 0 | 5,020,141 |
| Charge for year | 0 | 1,564,362 | 718,653 | 105,771 | 9,667 | 0 | 2,398,453 |
| Disposals in year | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| At 31 March 2005 | 0 | 4,589,384 | 2,117,096 | 659,914 | 52,200 | 0 | 7,418,594 |
| Net book value | | | | | | | |
| At 1 April 2004 | 941,104 | 271,341,306 | 39,640,134 | 341,204 | 88,391 | 55,555 | 312,407,694 |
| At 31 March 2005 | 1,246,316 | 270,802,768 | 40,402,512 | 819,214 | 78,724 | 55,555 | 313,405,089 |

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

| | | | | | | | |
|-------------------------------------|------------------|--------------------|-------------------|----------------|---------------|---------------|--------------------|
| Grant in Aid fund | 53,958 | 0 | 0 | 204,412 | 65,221 | 0 | 323,591 |
| Army Prize Money and Legacy fund | 1,192,358 | 270,802,768 | 40,402,512 | 605,800 | 13,503 | 55,555 | 313,072,496 |
| Subsidiaries | 0 | 0 | 0 | 9,002 | 0 | 0 | 9,002 |
| | 1,246,316 | 270,802,768 | 40,402,512 | 819,214 | 78,724 | 55,555 | 313,405,089 |

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

22 Listed investments

| | 2005 | 2004 |
|---|--------------------|-------------|
| | £ | £ |
| Market value at 1 April 2004 | 9,426,826 | 7,211,180 |
| Additions at cost | 1,203,088 | 1,336,996 |
| Cost of investments sold | (1,986,319) | (1,010,930) |
| Unrealised revaluation gain/(loss) | 1,162,340 | 1,889,580 |
| Market value at 31 March 2005 | 9,805,935 | 9,426,826 |
| Historical cost at 1 April 2004 | 10,393,146 | 10,067,082 |
| Historical cost at 31 March 2005 | 9,609,915 | 10,393,146 |

23 Investment property

| | 2005 £ | 2004 £ |
|--|------------------|------------------|
| Freehold land and buildings at valuation | 8,287,000 | <u>8,287,000</u> |

The Hospital's freehold investment property was valued by cordeaSavills 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 2005 £ | Total funds 2004 £ |
|---------------------------|---------------------------|---|------------------------|-------------------|---------------------------------------|-----------------------------|
| Trading stocks | 0 | 0 | 0 | 66,455 | 66,455 | 33,011 |
| Consumable stores | | | | | | |
| Superintendent of grounds | 0 | 6,500 | 6,500 | 0 | 6,500 | 0 |
| Quartermaster | 65,276 | 0 | 65,276 | 0 | 65,276 | 92,217 |
| Medical | 0 | 0 | 0 | 0 | 0 | 16,181 |
| Surveyor of works | 0 | 0 | 0 | 0 | 0 | 3,379 |
| Stationery | 0 | 0 | 0 | 0 | 0 | 609 |
| | <u>65,276</u> | <u>6,500</u> | <u>71,776</u> | <u>66,455</u> | <u>138,231</u> | <u>145,397</u> |

Stationery stocks are now treated as expense items and therefore excluded from the valuation. Medical stocks are no longer held since the disappearance of the post of Dispenser.

25 Debtors

| | Grant in Aid fund £ | Army prize money and legacy fund £ | Hospital funds £ | Subsidiaries £ | Total funds 2005 £ | Total funds 2004 £ |
|-------------------|---------------------------|---|------------------------|-------------------|---------------------------------------|-----------------------------|
| Sundry debtors | 51,874 | 56,318 | 108,192 | 438,829 | 547,021 | 104,156 |
| Prepayments | 8,090 | 2,721 | 10,811 | 0 | 10,811 | 9,273 |
| Accrued dividends | 0 | 41,861 | 41,861 | 0 | 41,861 | 0 |
| | <u>59,964</u> | <u>100,900</u> | <u>160,864</u> | <u>438,829</u> | <u>599,693</u> | <u>113,429</u> |

26 Cash at bank and in hand

| | Grant in Aid fund | Army prize money and legacy fund | Hospital funds | Subsidiaries | Total funds 2005 | Total funds 2004 |
|---------------------------------|----------------------|--|-------------------|------------------|---------------------------------|------------------------|
| | £ | £ | £ | £ | £ | £ |
| Term deposits | 0 | 2,050,000 | 2,050,000 | 0 | 2,050,000 | 0 |
| Other accounts and cash in hand | 4,574 | 509,340 | 513,914 | 5,677,588 | 6,191,502 | 3,143,940 |
| | <u>4,574</u> | <u>2,559,340</u> | <u>2,563,914</u> | <u>5,677,588</u> | <u>8,241,502</u> | <u>3,143,940</u> |

27 Creditors: amounts falling due within one year

| | Grant in Aid fund | Army prize money and legacy fund | Hospital funds | Subsidiaries | Total funds 2005 | Total funds 2004 |
|--------------------|----------------------|--|-------------------|----------------|---------------------------------|------------------------|
| | £ | £ | £ | £ | £ | £ |
| Sundry creditors | 0 | 13,359 | 13,359 | 503,457 | 516,816 | 336,688 |
| Accrued charges | 225,540 | 175,737 | 401,277 | 0 | 401,277 | 461,804 |
| Taxation creditors | 0 | 0 | 0 | 0 | 0 | 1,868 |
| Deferred income | 0 | 0 | 0 | 0 | 0 | 7,580 |
| Other creditors | 27,536 | 60,646 | 88,182 | 0 | 88,182 | 53,426 |
| | <u>253,076</u> | <u>249,742</u> | <u>502,818</u> | <u>503,457</u> | <u>1,006,275</u> | <u>861,366</u> |

28 Related party transactions

Creditors falling due in over one year represents a balance of £247,762 (2004: £232,671) of which £232,671 are funds held by the Hospital on behalf of the In-Pensioners' Club, and the remaining £15,091 relates to the Royal Hospital Chapel and is covered in note 32 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 £14,855 in 2004-2005, and the Hospital estimates that they will be approximately £15,000 in 2005-2006.

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 £2,320 (2004: £5,064) in respect of provision of facilities.

29 Pensions

During the year the Hospital operated four 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 2004-2005, employers' contributions of £490,471 were payable to the PCSPS (2003-2004: £425,660) at one of four rates in the range of 12 to 18.5% 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 2004-2005, employers' contributions of £189,277 were payable to the NHS Pension Scheme (£95,456 for 2003-2004). 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 are 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.

National Mutual Life

Until 31 July 2004, the Royal Hospital operated a funded defined contribution scheme with National Mutual Life Assurance Society for staff who were paid from the Army Prize Money and Legacy Fund. Since 1 August 2004 all such staff have been eligible for the Principal Civil Service Pension Scheme. The Hospital's contributions to the National Mutual Life scheme ranged between 8.5% and 20.5% of pensionable pay of current employees. Contributions in the year were £12,839 (2003-2004: £37,902). There were no prepaid contributions at the balance sheet date.

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 £58,241 (2004: £50,392) including lump sum payments of £12,023 (2004: £8,386).

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 2005, 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 2004 and 31 March 2005 the present value of the FRS17 liabilities, which is equal to the gross pension liability.

| Assumptions | 31 March 2005 pa | 31 March 2004 pa |
|-------------------------|---------------------------------|------------------------|
| Price inflation | 2.9% | 2.9% |
| Pension increases | 1.7% | 1.7% |
| Discount rate | 5.4% | 5.5% |
| Balance sheet (£000) | 31 March 2005 | 31 March 2004 |
| Gross pension liability | 515 | 526 |

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

| | Year to 31 March 2005 £000 | Year to 31 March 2004 £000 |
|--|---|-------------------------------------|
| Gross pension liability at year start | 526 | 509 |
| Current service cost | 1 | 6 |
| Pensions paid | (58) | (42) |
| Pensions finance costs/(income) | 27 | 27 |
| Actuarial loss on defined benefit pension scheme | 19 | 26 |
| Gross pension liability at year end | 515 | 526 |

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 2005 £000 | Year to 31 March 2004 £000 |
|-------------------------------|---|-------------------------------------|
| Current service cost | 1 | 6 |
| Past service cost | 0 | 0 |
| Total operating charge | 1 | 6 |

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 2005 £000 | Year to 31 March 2004 £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 2005 £000 | Year to 31 March 2004 £000 |
|--|---|-------------------------------------|
| Experience gains and (losses) arising on liabilities | (13) | (4) |
| Gain or (loss) due to changes in assumptions underlying the present value of liabilities | (6) | (22) |
| Actuarial gain/(loss) recognised in the SOFA | (19) | (26) |

The history of gains and losses is as follows

| | Year to 31 March 2005 | Year to 31 March 2004 |
|---|--------------------------------------|-----------------------------|
| Experience gains/(losses) on liabilities (£000) | (13) | (4) |
| Percentage of the present value of liabilities | (3%) | (0.8%) |
| Total amount of gains and losses (£000) | (19) | (26) |
| Percentage of the present value of liabilities | (4%) | (4.9%) |

30 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 2005 £ | Other 2005 £ | Land and buildings 2004 £ | Other 2004 £ |
|--|------------------------------------|--------------------|------------------------------------|--------------------|
| Operating leases which expire | | | | |
| Within one year | 0 | 159,799 | 0 | 96,572 |
| In the second to fifth years inclusive | 0 | 642,123 | 0 | 0 |
| Over five years | 0 | 299,144 | 0 | 0 |

31 Capital commitments

| | 2005 £ | 2004 £ |
|-------------------------------|-------------------|-----------|
| Authorised but not contracted | 1,628,440 | 914,165 |
| Authorised and contracted | 2,019,487 | 3,736,128 |
| | 3,647,927 | 4,650,293 |

32 Restricted funds

a Army Prize Money and Legacy Fund

The sum of £15,091 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 £750,000 intended for use in funding building work as part of the redevelopment plan of the Royal Hospital.

33 Post Balance Sheet event

On 14 July 2005 the Royal Hospital Chelsea signed a memorandum of understanding with the Royal British Legion accepting that a grant of £5 million should be applied to the building of the new infirmary. During the year ended 31 March 2005 £3 million received from the Royal British Legion was included in donations received. The grant is now being treated as a restricted fund.

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 2004-2005 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.

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