

ERSKINE HOSPITAL
(A company limited by guarantee
and not having a Share Capital)

REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2018

(Scottish Charity No: SC006609)
(Registered Company No: SC174103)

ERSKINE HOSPITAL

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ERSKINE HOSPITAL

BOARD OF TRUSTEES' REPORT (INCORPORATING THE STRATEGIC REPORT) FOR THE YEAR ENDED 30 SEPTEMBER 2018

The Trustees present the Board of Trustees' Report (incorporating the Strategic Report) and financial statements for the year ended 30 September 2018.

Principal activities

Erskine Hospital ("Erskine") has provided support to the veteran community of the Armed Forces for over 100 years. Its determination to provide the best care for Veterans, irrespective of their personal circumstance, has helped establish Erskine as one of Scotland's leading charities and a beacon in its field.

In 2018, the charity had four principal activities:

- Residential care homes: one in Edinburgh, one in Glasgow and two at Bishopton;
- Accommodation for independent living at Bishopton;
- A daily drop-in Veterans Activity Centre at Bishopton; and
- Accommodation and support services at the Army Personnel Recovery Centre, in our Edinburgh Home.

The provision of nursing, dementia and respite care to ex-Service men and women over the four Care Homes was the Charity's main activity. In addition to Veterans this care is also available to qualifying spouses; and former members of the Royal Fleet Auxiliary, the Home Guard and the Merchant Marine who were deployed on active service in support of the armed forces.

Erskine operated four care homes throughout the year with a total of 339 rooms across the estate: 180 rooms at Erskine Home, Bishopton; 40 rooms at Erskine Park, Bishopton; 47 rooms at Erskine Glasgow and 72 rooms at Erskine Edinburgh where in addition, we provide 16 rooms and support services for the Army Personnel Recovery Centre. Of the total of 339 rooms 137 were dedicated to dementia care, an increasing issue for elderly Veterans needing residential care.

Erskine contracts with 32 local authorities, the Services Personnel and Veterans Agency and self-funding residents for the provision of care.

This year we piloted a drop-in Activity Centre, utilising the Reid Macewen building on the Bishopton estate. The Activity Centre has allowed Erskine to develop the sort of psychosocial activities, stimulating entertainment and communal interactions which benefit residents in our four homes, and extend these to Veterans who are at risk of social isolation, loneliness and associated adverse impacts, in the wider West Coast community.

Erskine also supports Veterans through the provision of independent living accommodation for Veterans and families. Historically this has been provided via 44 cottages on the Bishopton estate. This year Erskine has developed more varied housing provisions so that both older and younger Veterans, in need of accommodation, might be supported with accommodation tailored to their particular circumstances.

Erskine has continued to play a pivotal role in Veterans Scotland, with the Chief Executive being a member of the Executive Committee and a member of the Health and Well-being Pillar. Membership of Veterans Scotland enables Erskine to remain apprised of the changing needs of Veterans outside its beneficiary cohort and to be aware of how other charities in Scotland and the UK are responding. This has led to Erskine's involvement in the Unforgotten Forces Consortium (where it leads by example in psychosocial support, art and championing physical activity for older Veterans). Our expertise and guidance have been much sought by government departments and health and social care advocates.

Strategic Report

Executive Summary

- Over 800 Veterans or spouses have received residential care during the year. Increasing numbers become residents for end-of-life care only.
- Pioneering employment of an Advanced Nurse Practitioner has enabled a faster and higher level response to residents when taken ill, reducing the number of hospital admissions, whilst improving the comfort and care of residents.
- Introduction of a Dementia Nurse Consultant and higher level training for staff has allowed Erskine to meet the increasing demand of caring for Veterans with dementia.
- Trialing a drop-in Activity Centre which provided purpose and a community for over 100 Veterans otherwise living in isolation has been successful.
- Creation of sun lounges and a patio area in one home, and a refurbished lounge in another have improved the facilities for residents.
- Improvements to the use of frontline digital platforms has allowed Erskine's person-centred care to be rated Excellent or Very Good in all homes. Few multi-site operators achieve this.
- Completion of building five Assisted Living apartments in October 2018, adjacent to the main home, has widened the support provided to Veterans and their families. A considerable waiting list illustrates additional need for this type of service.
- Renewal of the Army Personnel Recovery Centre contract continued to provide an insight into the needs of younger Veterans; and influenced the decision to build Single Living apartments. This project is in the build phase.
- Launch at the main Erskine site of Scotland's Bravest Manufacturing Company, by RBLI, to which we have provided support, has resulted in skills training and employment for younger Veterans.
- Deficit on providing charitable activities was £8.99m (2017: £8.14m). The increase of £0.85m primarily results from running the Activity Centre and maintaining pay levels in line with NHS Scotland.
- Fundraising expenditure was lower than last year, at £1.74m. Donations increased by £0.57m to £4.92m, but legacies decreased by £4.37m to £3.87m reflecting the unpredictability of such gifts. Total donations and legacies were £8.78m (2017: £12.59m).
- Given the need to look after current residents of the care homes irrespective of Erskine's annual income, the Board reviewed its policy on reserves and shared this more widely.
- Wing Commander Ian Cumming MBE took up the appointment of CEO in July 2018.

Review of the year

2018 saw Erskine and wider society reflect upon the Centenary of the 1918 Armistice. One hundred years since the ending of a war, in which Scotland's response to the horrors of industrial-scale warfare, was the creation of Erskine. Consequently, we have been heavily involved in commemorative events, which had particular significance for our residents. We have also been earnestly improving our long-standing credentials as a centre of excellence for the care and support of Veterans, whilst being a mindful champion of the emerging needs of the wider Veteran community in Scotland.

Care

This year, as in many gone by, we have cared for around 800 Erskine ex-service men, women and qualifying spouses. We have striven to improve not only the quality and capacity of care which we offer, but also to enhance our residents' environment – whilst sharing our insights and expertise with other partner organisations.

Our employment of an Advanced Nurse Practitioner (ANP) has proven to be a particular success. The ANP provides pre-emptive, highly skilled, intensive input (including differential diagnosis and pharmaceutical intervention) to residents whom staff assess are on the cusp of becoming seriously unwell. Early intervention from the ANP has supported residents to remain within the Home and reduced unnecessary hospital admissions. This has enormous benefits for elderly residents, who seldom want to go to hospital.

Review of the year (continued)

Care (continued)

Our Dementia Nurse Consultant has also enhanced the skills and awareness of staff in all four Homes. Her remarkable expertise, imparted through home/house visits, a tiered dementia training course and exploitation of our Domus training suite, has boosted staff awareness, empathy and capability in assisting our residents who live with the challenges of dementia. All this is enshrined within our newly developed Dementia Strategy 2018 – 2022, which maps out a 10-point plan for quality dementia care assurance. This will be incorporated into our new Care Strategy, which will also form part of the new Erskine Strategy 2019 - 2023.

Leadership and influence

As part of our drive to share our expertise, we were visited by a number of senior Health and Social Care professionals throughout the year. These have included the Chief Nursing Officer, The Cabinet Secretary for Health & Sport and The Minister for Mental Health. All visitors were impressed to learn that we are the only nursing homes in the UK to employ an Advanced Nurse Practitioner and a Dementia Nurse Consultant. They were also impressed by how Erskine is leading the way in the exploitation of technology to enhance and amplify the skills and expertise of our highly motivated staff. Frontline digital platforms help them support care delivery (care planning/recording and medication management) as well as "in the moment" capture of resident wellbeing and interactions. Our interactive Omi-Vista light tables have also made a very real difference to the amount of stimulation and entertainment that residents can access on their own terms. Staff and visitors enjoy them too!

On an associated theme, our third Erskine Sporting Seniors Games saw 115 competitors from Erskine homes and other Scottish Care Homes come together for an age-appropriate "Elder Invictus" event at a local high school sports hall. The competition was a huge success, with everyone enjoying the activities, competition and medals! Next year we will showcase this event as part of an Unforgotten Forces Consortium initiative to encourage physical activity amongst Veterans in communities across Scotland.

Home environment

A high quality living environment is core to our residents' care experience. We have therefore continued a refurbishment programme for the homes to ensure we provide the best possible environment. This work has included the construction of a bright, warm and airy lounge seating area in Erskine Park Home and the completion of sun lounges and first floor patio areas within the Erskine Home. Fencing is being adjusted to allow inclusion of more outdoor areas and "fairy glades" which our talented Veterans from the woodwork group have fashioned from nearby tree clusters.

All wooden fencing has now been entirely replaced with modern wire fencing to provide a more open outlook and sense of space. These complement our newly completed sensory gardens for the dementia houses in Bishopton. Our cycle track through the woodland on the Bishopton estate and four powered tandem cycles have been a real boon to residents, relatives and staff. They very much enjoy touring the woodlands and the outdoor artwork projects, which our Unforgotten Force Consortium partners, "Luminate", have helped residents install around the woods and gardens. Our partners have now moved into residence in the Glasgow home, where their work, alongside environmental enhancements in Glasgow and Edinburgh, continue to improve the powers of expression, positive outlook and wellbeing of all Erskine residents.

Inspections

With such a great deal achieved this year, we were delighted, but by no means surprised, to be awarded Grade 6 (Excellent) under the new Care Inspectorate inspection regime in both The Erskine Home and Erskine Park Home. The comments offered by residents, their families, and the inspectors themselves, were quite uplifting and spoke volumes for the professionalism and compassion that is at the core of our person-centred approach and Erskine Values. We were happy that Erskine Edinburgh and Erskine Glasgow retained their Care Inspectorate Grade 5's (Very Good) under the old inspection regime.

Review of the year (continued)

Veterans Activity Centre (Psychosocial support)

Meaningful interaction, stimulation, entertainment and a sense of community and shared experience, are also vital for Erskine. Over the years we have seen how important this psychosocial support is to holistic, person-centred care and wellbeing. Therefore, in January 2018, we opened the Erskine Reid Macewen Activities Centre (ERMAC).

ERMAC has a membership of 105 Veterans who come from as far afield as the East End of Glasgow and Motherwell. Although many are over 65 years of age, some are younger; many live with a variety of challenges including post-traumatic stress disorder. All will testify to have been experiencing social isolation, loneliness, or a lack of direction or optimism. ERMAC members enjoy a wide variety of meaningful skills training, such as arts and crafts, cooking, outdoor pursuits, IT lessons, music-making, relaxation therapies and nutritious lunches. It is these meaningful activities (and inexpensive food!) that bring our Veterans here on a daily basis. However, it is their interaction and camaraderie with a common language and heritage that makes the biggest difference to our Veterans' lives. A professional consultation with our members drew many plaudits and described ERMAC and its historic building, as delivering life-changing and life-saving support.

We are very proud of the difference that we have made to the wider Veteran community. We are now exploring options to increase ERMAC capacity and to extend Erskine's reach across Scotland to the many Veterans who could benefit from such vital support.

Accommodation

Our 44 cottages have remained fully occupied and demand remains high for what Housing Options Scotland describe as an extremely attractive and competitive offering. This year, we initiated a Tenants' Forum, based on openness and frank discussion about their needs and our plan to improve their homes through a progressive and well-funded refurbishment programme. Through our Head of Facilities and Support and his housing manager, we maintain this high level of engagement, as well as informal signposting to financial services and other agencies whom we believe can further assist Veteran tenants. We continue to engage with Veterans Scotland Accommodation Pillar and other housing partners, including Housing Options Scotland.

In 2018, we extended our housing offering. We completed "Kimberlea House" – five assisted living apartments in October 2018, which abut the Erskine Home. These accessible individual apartments offer high quality accommodation to older Veterans who remain fiercely independent, but who are grateful for the reassurance of having Erskine's staff and facilities nearby. Demand is high and the apartments, have a significant waiting list.

Provision of hotel and support services for younger Veterans at the Army Personnel Recovery Centre, in our Edinburgh Home, has taught us a great deal. Some of these younger ex-service people, who leave the military due to physical or mental health issues, may have very few options for accommodation or future employment. Therefore, in July 2018, we commenced the building of 24 single living accommodation apartments, adjacent to the ERMAC building. It is our intention that they will serve as a short to medium term "safe base" for younger Veterans of working age, who can recuperate, re-orientate and retrain on the Bishopton Estate, prior to commencing the next chapter of their lives.

ERMAC will play a role in helping these younger Veterans network and train. However, they will also be able to avail themselves of high quality, engineering, cutting, drilling, fabrication and service industry skills, via our partners at Scotland's Bravest Manufacturing Company (SBMC). This year, we helped SBMC occupy and refurbish the old Erskine Furniture Factory. Benefitting from a long-term lease, which starts with a two year rent free period, SBMC are an integral part of the offering available to younger Veterans on the Bishopton estate. We will reserve at least five single living apartments for SBMC students and indeed have already placed one of their employees in one of our cottages. This sort of mutually beneficial partnership will be central to Erskine's work going forward.

ERSKINE HOSPITAL

BOARD OF TRUSTEES' REPORT (INCORPORATING THE STRATEGIC REPORT) FOR THE YEAR ENDED 30 SEPTEMBER 2018

Financial review and key performance indicators

This year we have recorded a loss of £564k (2017: surplus of £3.92m), before investment gains/(losses) and other recognised gains. The deterioration of the results by £4.48m results primarily from the £4.37m reduction in legacies income.

Income from care home fees and miscellaneous income increased by £0.56m to £15.01m (2017: £14.45m). Care home fees rose from £13.50m in 2017 to £14.00m in 2018 – local authority rates went up by 3.39% from April 2018, on the understanding that all care workers, regardless of age, experience or time in employment, were paid a minimum of £8.75 per hour (Scottish Living Wage), from 1 May 2018, and self-funding rates rose by 1% from 1 April 2018. Room occupancy averaged out at 97.4% over the year, which was a little higher than last year (2017: 96.8%).

Miscellaneous income consists of income from the Personnel Recovery Centre, at the Erskine Edinburgh Home, Harry's Café, which is located within The Erskine Home, the Royal Scots Shop, also located within the Erskine Home and rentals from the 44 cottages on the Bishopton Estate. Also included, and new to this year, was the catering income from the operation of the Erskine Reid Macewen Activity Centre. Renting a field to SGN for gas works carried out over the summer generated £24k of income. Miscellaneous income, in total, was £1.03m this year, an increase £0.02m from last year.

The charitable activities expenditure increased by 6% from £22.65m to £24.02m partly due to an increase in staff salaries. Erskine continues to pay at least the Scottish Living Wage, which resulted in a pay increase in bands 1 and 2 of 2.37% and an increase for all other staff of 1%. Erskine pay the Scottish Living Wage to all staff even though we are only required to pay this to Care staff.

Included within charitable activities expenditure are a few one-off costs, being the loss on disposal of fixed assets relating to the sale of the Erskine Mains care home building in August 2018 (£486k), and a grant paid to the Royal British Legion Industries (RBLI) of £400k to assist with the refurbishment of our former furniture factory, in preparation for Scotland's Bravest Manufacturing Company to begin operations.

Also included within charitable activities expenditure is the cost of introducing an Activities Centre which commenced operations in January 2018. In its first 9 months of operations, costs of £349k were incurred.

The annual deficit on the provision of care was £7.75m, which is calculated using the care home income, less charitable activities expenditure, but excluding the one-off costs detailed above, being the grant to RBLI, the pilot of the Activity Centre, and the loss on the disposal of fixed assets. This represents a deficit of £440 per care room per week.

Donations and legacies fell by £3.81m to £8.78m. In particular, legacy income decreased by £4.37m. Included within donations and legacies is £1.01m donated for restricted projects/services. Expenditure on raising funds was £1.4m, compared with £2.10m last year. Our number of donors has reduced year on year by 3% from 37,407 to 36,107. Of this total, 18,812 donate regularly. As a consequence of reduced legacy income the ratio of expenditure on raising funds to income raised increased to 20% compared to 17% last year.

Investment income was £1.52m compared to £1.68m last year. This comprised £1.39m from investment dividends and interest (2017: £1.56m) and £128k from rental income for the Garden Centre building (2017: £120k), the operation of which transferred to Caulders Garden Centre on 1 November 2014. Other income included a £9k gain on sale of tangible fixed assets (2017: gain £21k).

There were realised gains on sale of investments of £133k (2017: losses of £275k), and unrealised gains of £1.45m (2017: £1.57m). There was a £618k (2017: £1.79m) actuarial gain on the defined benefit pension scheme.

After taking account of all other recognised gains and losses, the overall increase in funds was £1.64m compared with an increase of £7.23m in 2017.

Defined benefit pension scheme

The defined benefit pension scheme was closed to future accrual on 1 August 2010.

As at 30 September 2018 there is a scheme surplus of £2.24m. Under the accounting standard FRS102, the scheme surplus is only recognisable on the balance sheet to the extent that Erskine can recover the surplus through reduced contributions in future or through refunds from the Scheme. However, FRS102 is silent on how any restriction to surplus should be determined. As the Scheme is closed to accrual, the surplus cannot be recognised on the basis of a reduction in future contributions. A consistent approach to the previous accounting standard (FRS17) has been applied meaning that because a refund has not been agreed with the Trustees as at the balance sheet date, no surplus is recorded within these financial statements.

The present value of the scheme liabilities has been estimated by rolling forward the results of 5 April 2018 triennial actuarial valuation. Last year's results were based on a roll forward of the results of 5 April 2015 valuation. The decrease in the Scheme's liabilities since last year is largely due to the effect of actual versus assumed member experience between the 2015 and 2018 valuations (primarily more members dying than expected). There has also been an increase in corporate bond yields on which the discount rate is based, which has further reduced the liabilities.

Guaranteed minimum pension equalisation

The High court ruled on 26 October 2018 in the landmark Lloyds Banking Group case on Guaranteed Minimum Pensions (GMP's). The judgement requires equalisation between males and females for the effect of unequal GMP's accrued between 17 May 1990 and 5 April 1997. The judgement also describes the permissible ways in which benefits can be equalised.

The effect will be to increase the liabilities on the balance sheet (perhaps by around 1-2%), although the impact of this will not be known until the Trustees of the Scheme have fully equalised benefits, a process which may take some time. No adjustment has been made to the liabilities as at 30 September 2018, however, the estimated impact of GMP equalisation will be recognised as a plan amendment in the period to 30 September 2019.

Strategic risks and operational risk management

The strategic risks and uncertainties facing the charity are manifold but manageable, through the collaborative efforts of the executive management team, who report their findings and work to the Audit Committee and the Board.

Costs

Scottish Government policy, 'Reshaping Care for Older People' directs prioritised resources to services which help older people to enjoy full and positive lives *in their own home*. This may eventually result in fewer referrals from Local Authorities for long term care placements. However, when Veterans do finally reach us, their conditions are more advanced/deteriorated, with more complex and more expensive care needs. This also translates directly into increased staffing costs, particularly because Erskine operates with enhanced staffing ratios and specialist care roles. Staff expectation that Erskine will match the salary scales/uplifts of NHS Care and Support Staff and Allied Health Professionals, magnifies the issue.

National Care Contract (NCC)

Negotiations to continue the NCC are ongoing. If the NCC ends, then this could potentially introduce a great deal of inconsistent rates and heightened local competition, as hard-pressed Local Authorities seek to secure the best value for money from social care providers.

Thus far, Erskine has borne all these pressures, through efficiency measures, contract review and financial prudence. However, the ending of the National Care Contract, and anticipated 9% NHS salary increases over the next 3 years, (not to mention Brexit/Indy2) could well pose increasing challenges.

Strategic risks and operational risk management (continued)

Fundraising

Erskine also faces a complex, multi-faceted challenge on the fundraising front. Nationwide, charities are facing a challenging time due to political uncertainty, rising cost of living and lower disposable income. This has introduced increased competition for "donor pound" and fierce competition for recruitment and retention of talented fundraising staff.

Erskine has historically relied upon around 50% of its income from gift donations – circa half of which comes from legacies and wills. Legacy gifts are unpredictable, prone to peaks and troughs and thus uncomfortable to rely upon to the extent that we have in the past.

Despite spending a great deal on care and support of its beneficiaries, and a good deal more than many of its ex-military counterparts, Erskine is not as well-known as some peers. This is particularly the case further east and north, where we are virtually unknown amongst 35 - 40 year olds. This is due in part at least to our restricted footprint and more niche, eldercare activities. Paradoxically, because we have understandably high running costs and hold reserves to protect the running of the care homes, we are sometimes considered, erroneously, to be a comfortably wealthy charity. This has made for significant disappointments when applying for restricted grants from large foundations and trusts.

Under all these circumstances, it is tempting to minimise novel fundraising expenditure and reduce our "added value" services in order to mitigate these risks. However, this would be strategically flawed and at odds with Erskine's ethos of excellence. Therefore, given that we know care costs are set to rise for the foreseeable future, it is now more important than ever, to further invest in marketing and donor development/stewarding programmes, which increases nationwide awareness of the charity and secures long-term support for both our existing and newer services.

Risk Management Mechanisms

The Trustees and Executive Management Team implement a robust and effective framework for the management of risk. This framework, which is applied Erskine wide, supports management processes, and provides assurance that effective systems are in place to ensure compliance with legal requirements, good practice and to mitigate operational/strategic risks or shocks.

In 2018, the Chief Executive Officer (CEO) and his Executive Management Team (EMT), initiated a comprehensive review of the Risk Register, to ensure that oversight and management of significant risks were not being hampered by inclusion of lower-level risks, which are all part of daily care routine and unlikely to have strategic consequence. The CEO and EMT continue their review on a monthly basis to ensure the astute assessment and management of emerging risks which could have an immediate and significant impact. Relevant Board sub committees review risks in their own areas and the Board of Trustees receive a formal report twice a year. By tackling risk in this systematic way, continuous improvement is achieved with a positive impact on the quality of care, our staff and the efficiency of Erskine.

KPMG, Erskine's internal auditors, continue to support the EMT in describing the risks to achieving our objectives and rate them accurately for reporting to the Audit Committee. During the year, KPMG further supported the risk management strategy by planning an internal audit service as agreed by the Audit Committee. The EMT monitors internal clinical and operational support audit compliance, tracking follow up actions to ensure there is a detailed audit trail to completion and reports to the Audit Committee. External audits from the Care Inspectorate, Environmental Health Officers and Fire authorities are followed up and are used as a means to improve services to residents.

There are in-house audits to ensure and assure that appropriate high standards of care are delivered and that, where required, best practices statements, policies and procedures are in place. These include audits relating to Clinical and Care Standards, Food Hygiene, Infection Control, Health and Safety, Fire and Data Protection and are completed by designated Erskine staff.

Strategic risks and operational risk management (continued)

Risk Management Mechanisms (continued)

The Erskine Care and Clinical Governance Committee meets quarterly. The Committee's remit is to scrutinise the performance of the Care Directorate against specific quality and process criteria. Their role is to assure the Board that resident centred care is provided safely and effectively.

The Erskine Health and Safety Committee meets every three months with a remit to promote efficient and effective health and safety practices to ensure the health, safety and welfare of all employees, residents and volunteers at Erskine, as well as those who may be affected by Erskine activities.

Fire risk assessments for all premises are updated annually. Fire Brigade Fire Safety Officers have visited all the Care Homes in the past twelve months; actions recommended are monitored by the Head of Facilities & Support Services to ensure completion.

Reserves policy

Since 1916, Erskine has built a fine reputation for outstanding care and welfare support to vulnerable, disabled or elderly Veterans. Our residents live with numerous complex health and wellbeing challenges. Erskine exists to ensure these Veterans benefit from professionally skilled, compassionate and invigorating care, in a homely environment - optimised for comfort and dignity, but anchored to their shared military heritage.

Our Trustees believe that our Veterans, who sacrificed much in-Service, have earned the right to the best care for their individual needs and wishes. Therefore, we staff, train, equip and operate our care homes to "outstanding and sector-leading" standards. In any given year, some 800 vulnerable residents benefit from our vital nursing, dementia, palliative and end-of-life care and support services. These services attracted costs of £24.02m in the current year (2017: £22.65m).

In our experience, disruption in care provision, relocation to another home, or admission to hospital can significantly impact the wellbeing of frail residents – particularly those also living with dementia. To protect our Veterans' wellbeing, the Board of Trustees seek to ensure that our care homes can deliver uninterrupted high standards of care and support, despite any form of strategic shock which impacts income. Strategic shocks may include: economic crash; geo-political upheaval; major business disaster, or any incident which affects our reputation and thus fundraising capability. In extremis, such shocks may also impact our statutory and self-funded residents' ability to pay in a timely manner. We must be able to bear any such delays and interruptions. Therefore, under these circumstances, the Board of Trustees assess that Erskine must remain capable of operating for up to two years (i.e. beyond the anticipated lifetime of most residents) without external financial support.

Erskine holds liquid funds in order to be able to guarantee that the care of ex-Service men and women can be sustained despite any shocks. Substantial investment and voluntary income will be needed each year to offset the annual deficit on the cost of care (excluding ERMAC and other one off costs) which amounted to £7.75m this year. Should these sources fluctuate downwards, it is appropriate for Erskine to hold significant reserves to manage the risk.

An additional benefit of this reserves policy is that Erskine can give confidence to auditors and to donors, supporters and creditors, that we have de-risked all of our charitable services and can successfully complete any development project within which they have chosen to invest or collaborate. We are therefore also able to discharge our responsibilities to those younger Veterans and their families, who rely upon us as a "safety net" for accommodation, training and welfare support, whilst transitioning into post-Service life.

Unrestricted funds are expendable at the discretion of the Trustees in the furtherance of the charitable company's objectives. Within unrestricted funds, the Trustees have earmarked funds for certain future commitments as designated funds and set aside the value of fixed assets which are not readily realisable. Restricted funds have specific terms or conditions which have to be satisfied and these funds remain restricted until all the related conditions have been satisfied.

ERSKINE HOSPITAL

BOARD OF TRUSTEES' REPORT (INCORPORATING THE STRATEGIC REPORT) FOR THE YEAR ENDED 30 SEPTEMBER 2018

Reserves policy (continued)

A restricted fund was established at the time of the decision to build new facilities at Erskine, Edinburgh and more recently Erskine Park, Erskine Glasgow and the expansion of Erskine Edinburgh. The Erskine Reid Macewen Training Centre, former Social Firm buildings and replacement cottages are also included in this fund. There are no continuing restrictions on this fund so the balance was reallocated to designated reserves as a result of clarification within the Statement of Recommended Practice (SORP) "Accounting and Reporting by Charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102)". Depreciation is being charged to the fund over the expected useful life of these facilities.

Designated funds amounting to £3.30m (2017: £3.84m) have been established to provide for capital expenditure and lifecycle costs relating to property maintenance. Also included in designated funds is £3.58m (2017: £4.65m) which the Board have set aside for a number of facilities projects, designed to enhance our care of residents. This is in addition to £18.83m (2017: £18.65m) also included in designated funds representing the anticipated deficit arising over the next 2 years from the operation of the care homes and ERMAC. This provision has been set at 2 years as it is representative of the longer term nature of the care provision at Erskine.

Reserves which are unrestricted and not designated for designated funds are £20.90m.

Accounting standards require Erskine to recognise income when it is probable that the income will be received. This has resulted in £2.29m of legacies being accrued at 30 September 2018 ahead of receipt. This amount has been designated until the cash is received and available for use by Erskine.

The anticipated deficit on all activities along with current and any future capital expenditure will deplete the level of funds in reserves and reduce the associated available income. It will be necessary to continue investing in effective fundraising in order to minimise this negative effect on investment income.

The Trustees have been considering plans for future periods and how the undesignated reserves of Erskine might be used to develop further our charitable objectives. Details are given below under Plans for Future Periods.

Investment policy and performance

The Finance & Performance Committee has considered the most appropriate policy for investing funds, and has appointed professional investment managers. There were realised gains on sale of investments of £133k and unrealised gains of £1.45m in the year ended 30 September 2018, which the Committee deems satisfactory. However, as at 15 March 2019, the investments have unrealised losses of £1.56m, which is a result of poor market performance.

Creditor payment policy and practice

Erskine's policy is to pay most trade creditors at the end of the month. At 30 September 2018 Erskine had an average of 33 days' purchases outstanding in trade creditors.

Volunteers

The total number of registered volunteers was 255 with an average of 193 being active during the year. The Volunteer Impact system has allowed us to make more effective use of their time and approximately 16,800 hours were contributed during the year.

We recognise the essential and valuable contribution that volunteers make towards the organisation.

Fundraising

The Head of Fundraising and Communications is responsible for all fundraising, marketing and external communications activities and manages a team of 20 staff. As part of our Individual Giving activities professional fundraising representatives may be used for door to door or telephone fundraising.

As members of the Institute of Fundraising, all Erskine fundraisers, whether employed by Erskine, volunteers, or acting on behalf of the charity adopt the Standards and Policy issued by the Fundraising Regulator's and are bound by Erskine's "Projecting Vulnerability" policy.



Erskine could not fulfil its charity mission without the support of generous, thoughtful and committed donors, who are extremely valued, along with the need to balance duty to beneficiaries with duty to donors. Erskine is committed to best practice fundraising and is registered with the Scottish Fundraising Standards Panel Register of Charities. As such Erskine complies with the law as it applies to charities and fundraising and adheres to best practice as outlined in the Fundraising Code of Practice.

As a charity registered in Scotland, Erskine adheres to the Office of the Scottish Charity Regulator (OSCR) with regard to the legal requirements of Scottish Charity law in relation to fundraising. 18 complaints were received during the year. However, all were dealt with and appropriately resolved.

Erskine has a clearly defined fundraising strategy and tracks performance and expenditure against agreed monthly KPIs with all fundraising, communications and marketing activities monitored by the Board of Trustees and the Finance and Performance Committee.

Workforce Involvement

During this year, we held an Employee Engagement Survey giving the staff opportunity to give feedback and have their say in the way forward for Erskine. The survey was a repeat of the questions in 2016 to allow a comparison of answers. The 2016 survey had a return of 51%; this year was slightly more with a 53% return.

The very positive feedback indicates the majority of staff enjoy working at Erskine; are aware of our policies and procedures and support through Occupational Health and Employee Assistance Programme services. Areas for improvement highlighted were communication to staff, visibility and approachable management at all levels, staff recognition and better working and communication between departments. Our modern apprentice programme was increased this year by 10 new employees – 1 x admin, 1 x catering and 8 x care. The four current MA's in care commenced their SCQF Level 6 in May 2018. The success of this new programme was confirmed when Erskine's first MA in business admin secured a permanent post within the finance department in May of this year, following the two year programme.

Once again, the calibre of nominations for our President's Awards submitted this year was extremely high and, although the final winners have now been presented with their awards, we believe every nominee was a winner in their own right. There was further recognition of achievement when our Advanced Nurse Practitioner, Jennifer Boyd, won the "Innovation for Advanced Practice Award" from ACAP Scotland (Acute Care Advanced Practice) and was also crowned Nurse of the Year at the Scottish Care Awards. Janice McAlister, Dementia Nurse Consultant, was a finalist at the Scottish Care Awards in the Training and Staff Development category. Congratulations also to Lesley Wylie, Erskine Park Home Manager, who was selected earlier this year to take part in a nine month development programme run by the Queen's Nursing Institute Scotland (QNIS), and has been awarded the prestigious title of Queen's Nurse. Without doubt, awards such as these pay tribute to the tremendous level of dedication to the chosen specialities and interests represented throughout Erskine.

Our Erskine Values – Communication, Accountability, Respect and Excellence continue to underpin everything we do.

We continue to work in partnership with our recognised Trade Unions who are fully consulted with and engaged in any formal meetings.

Disabled employees

Erskine Hospital, as an organisation providing care for those with physical and mental impairment, gives full consideration to employment applications from disabled persons, where the requirements of the job can be adequately filled by a disabled person. If existing employees become disabled it is Erskine's policy, wherever practicable, to provide continuing employment under normal terms and conditions and to provide training and career development opportunities wherever appropriate.

Erskine provides employment to those with a disability under the Employment Service Work Choice Scheme. In addition, war pensioners are employed within the organisation.

Plans for future periods

The Board has reviewed the 2012-2018 strategy each year since it was issued to ensure its continued relevance and that the action plan is on target for completion. At the end of 2018 an in-depth review of anticipated challenges and future service provision was undertaken once more. The outcomes from this informed the new strategy for 2019-2023, which will be reviewed at the next Board Meeting in March 2019. The Board has confirmed its intent to adjust Erskine's Vision and Mission, to be wider ranging, more collaborative and cognisant of our awareness of the changing needs of the wider Veteran community of all ages.

Erskine Vision:

A Scotland in which all Veterans and their families are valued and respected and where high quality care and holistic support, enable them to maximise their potential and quality of life.

Erskine's Mission:

To lead by collaborative example, in shaping, developing and delivering outstanding, person-centred care, accommodation & holistic support, so that Veterans in Scotland are valued and enjoy a sense of fulfilment in every phase of post-Service life.

To that end, The Board have directed that the following main strands of work will be incorporated into the 2019-2023 strategy:

- To continue to develop and share best practice in the delivery of person-centred care, support and homely environment for our elderly residents. These to be captured within a Clinical & Care Strategy.
- To optimise the facilities and capacity of the Reid Macewen Activities Centre, and to subsequently duplicate similar, high quality venues and facilities in other regions where Veterans are at risk of social isolation and loneliness. Potential locations include Stirlingshire, Inverness, Fife/Tayside, and Aberdeenshire.
- Investment and development of an integrated Fundraising and Engagement Strategy (after an external consultation) to enhance our fundraising and marketing capability in support of a well-funded, accelerated and integrated programme of donor acquisition and long-term stewarding.
- Development of an Estate Strategy and exploration of appropriate business models, which help meet the changing accommodation needs of Veterans (as evidenced by an 80 strong waiting list for our non-care accommodation).
- Prudent use of reserves to achieve the above objectives where necessary.

ERSKINE HOSPITAL

BOARD OF TRUSTEES' REPORT (INCORPORATING THE STRATEGIC REPORT) FOR THE YEAR ENDED 30 SEPTEMBER 2018

Plans for future periods (continued)

Strategic objectives and outcomes

The objectives and outcomes continue to be re-worked as part of the Strategic Plan which is a living document.

Evolving objectives are:

- Provide evidence based care that supports residents to achieve their maximum potential;
- Provide accommodation for independent or supported living;
- Development of an Estate strategy and exploration of appropriate business models, which help meet the changing accommodation needs of Veterans, whilst potentially generating income;
- Develop our staff and volunteers;
- Work in partnerships with other Veteran Charities and Stakeholders;
- To set a prudent and pragmatic budget which makes most efficient use (and return) of resource in pursuance of charitable objectives; and
- Continue to improve internal policies, processes and procedures.

Outcomes will be that Erskine:

- Is a recognised and influential centre of excellence for holistic care and support to beneficiaries across the Scottish Veteran community;
- Works in partnership and collaboration with other organisations;
- Has a committed and well-trained workforce;
- Has a sustainable financial future; and
- Has fit for purpose internal systems and processes.

Estates

At the last Strategic Review, Trustees concurred with the CEO that now was not a good time to be selling off potentially valuable land, which may yet be further developed to provide Veteran accommodation and other services. Plans to dispose of any further component of the Erskine Estate are now held in abeyance whilst a review of Veteran support and accommodation needs is conducted.

The Board continues to endorse Erskine's support to the Royal British Legion Industries subsidiary social enterprise: Scotland's Bravest Manufacturing Company (SBMC). SBMC have now assumed full occupancy of and responsibility for Erskine's former furniture factory and its operations, with a 25-year lease due to be signed in the near future. Recruitment of Veteran employees and trainees, by SBMC, has been swift and continues to increase reassuringly. We continue to closely partner and support SBMC, not least through engagement and influence assistance and the reservation of single living apartments for employees and students. We also currently provide Bravehound with rent free accommodation.

Structure, governance and management

Erskine was founded in 1916. The current governing instruments are the Memorandum and Articles of Association, with which Erskine was incorporated as a company limited by guarantee with charitable status on 4 April 1997. The Board have agreed to review the governing instruments over the course of the next financial year.

The Memorandum of Association provides that Erskine is established for the following charitable objects:-

- (a) The provision of financial support to men and women with a current or former record of armed service or service in support of, or alongside the armed services together with dependents or surviving dependents of such personnel who find themselves in necessitous circumstances on terms which are most appropriate to their individual needs.

Structure, governance and management (continued)

- (b) The provision of long term nursing care and short term and respite nursing care within the United Kingdom.
- (c) The provision of health care including residential long term, residential short term and respite care, day care, domiciliary care and all appropriate relevant recreational and therapeutic programmes within the United Kingdom.
- (d) The creation of centres of excellence for nursing and residential care together with the creation of training opportunities for personnel involved in nursing and health care and medical and allied professions.
- (e) The provision of employment opportunities for individuals with physical or other disabilities, the provision of rehabilitation assessment and training for individuals with physical disabilities and other disadvantages which could be impediments to independent living.
- (f) The provision, construction, improvement, or management for persons who are aged or infirm or disabled or handicapped (whether mentally or physically) and in need therefore of housing and any associated amenities specially designed or adapted to meet the disabilities and requirements of such persons.

The principal address of Erskine is Erskine Hospital, Bishopton, Renfrewshire PA7 5PU.

The website address:- www.erskine.org.uk

Appointment, induction and training of the Board of Trustees

Appointment to Erskine's Board of Trustees is carried out in accordance with the requirements of:

- the Charities and Trustee Investment (Scotland) Act 2005; and
- the policies and procedures as set by Erskine, having the necessary regard to the provisions of the Memorandum and Articles of Association.

Members of the Board of Trustees are elected from amongst members of the charitable company. As a result of this requirement all members of the Board of Trustees must be members of the charitable company.

Before recruiting new members of the Board of Trustees, Erskine identifies and prioritises those skills which would benefit the Board of Trustees. In undertaking this task the Board has regard to its Governance role in setting and achieving the charitable company's strategic objectives, as well as seeking to represent the community both geographically and in terms of community interest. Over the next financial year the Board intend to recruit new Trustees with skills and experience in relation to investment management, fundraising, care and human resources to replace the skills and experience of retiring Trustees and to further enhance and strengthen the Board of Trustees.

The Board of Trustees regularly review:-

- how they organise themselves with regard to board meetings;
- whether these meetings are at times which restrict those who can attend;
- whether meetings are held at venues which are readily accessible; and
- whether materials for trustees are available in alternative formats - large type, audio etc.

Erskine's recruitment policy seeks to represent the community both geographically and in terms of community interest.

Erskine has a conflict of interest policy and maintains a conflicts of interest register.

Appointment, induction and training of the Board of Trustees (continued)

Potential members of the Board of Trustees receive information (recruitment) packs with the details they need to determine whether they wish to pursue their interest and are able to offer the required level of commitment. The recruitment pack aims to allow the potential member a full understanding of the charitable company and what Erskine expects of its Board members.

Following selection as a member of the Board of Trustees, a full induction process is followed. Information is supplied on how to interpret the financial information together with details of how the Board measure and reflect on the performance of the charitable company. New members are invited to meet the executive management team and to visit the charitable company's operating premises.

Organisational structure

Under the provisions of the Companies Act 2006, the Board of Trustees are all effectively the Directors of the company. The Board of Trustees meet on at least four occasions per year. Meetings of the Board are attended by all members of Erskine's Executive Management Team. The Board are given regular reports on regulatory issues including care and clinical governance and financial performance. The Board further considers strategic issues and recommendations together with specific issues for decision which have been brought through the Sub-Committee structure.

Sub-Committee Structure

Erskine's Sub-Committees are formed from the membership of the Board of Trustees. Certain Sub-Committees have additional co-opted members who have particular expertise in the areas being considered by the relevant Sub-Committees.

The Sub-Committees are:-

- (a) **Finance & Performance Committee** who, on behalf of the Board of Trustees, oversee the long term strategic planning of Erskine's finances along with the performance of the organisation against a series of agreed key performance indicators;
- (b) **Audit Committee** who undertake, on behalf of the Board of Trustees, a regular review of the operational effectiveness of the internal financial controls and procedures of Erskine and all statutory audit material including the Annual Report and management letter;
- (c) **Care & Clinical Governance Committee** whose primary aim is to assure the Board that effective Clinical Governance mechanisms are in place throughout the care operation to ensure efficient and professional practice for the delivery of high quality care and a safe environment for residents, staff and members of the public;
- (d) **Staff Governance Committee** whose primary purpose is to provide assurance to the Board that appropriate staff governance mechanisms are in place; and
- (e) **Remuneration Committee** whose primary responsibility is for approval of all strategic remuneration issues within Erskine including setting key management personnel compensation.

Each of the Sub-Committees' minutes are circulated to all members of the Board of Trustees and regular reports are brought to the Board together with any particular issues which require the overall decision of the Board.

Related parties

Erskine has one subsidiary, Erskine Developments Limited.

ERSKINE HOSPITAL

BOARD OF TRUSTEES' REPORT (INCORPORATING THE STRATEGIC REPORT) FOR THE YEAR ENDED 30 SEPTEMBER 2018

Reference and administrative details

Erskine is a private company limited by guarantee and not having a share capital, with registration number SC174103. It is recognised as a charity for tax purposes by HMRC and is registered with the Office of the Scottish Charity Regulator (OSCR) under charity number SC006609.

The ordinary membership of the company, who form the General Council, appoint from their number the Board of Trustees which is composed of not less than 12 and not more than 18 trustees. The Board of Trustees may also co-opt not more than five additional members on an annual basis.

The General Council meets on at least two occasions during the year at which time members are given an update on the work at Erskine. They also receive regular written updates from the Chief Executive.

Board of Trustees

The Board of Trustees, who are the Directors for the purposes of Company Law and Trustees for the purposes of Charity Law, during the period covered by these financial statements and up to the date of approval of the financial statements were as follows:

Robin Crawford (Chairman) x	Alan Seabourne ≈
Stuart Aitkenhead ≈ x	Brenda Wilson ≠
Brian Cowan ≠	James Fraser ∅
Ian Reid * x	David Harrison *
Roslyn Crocket ≠ x	Simon Allbutt *
Rani Dhir ≈ ∅	Ian Lee ∅ x
Robert Kemp ≈	Elizabeth Simpson ≈ ∅
David (Douglas) Griffin ∅	Rosemary Lyness ≠

≈	Finance & Performance Committee Member
∅	Audit Committee Member
≠	Care & Clinical Governance Committee Member
*	Staff Governance Committee Member
x	Remuneration Committee Member

Chief Executive

Lieutenant Colonel Steve Conway Royal Marines (retired) retired as Chief Executive on 27 May 2018. The Board are extremely grateful to him for his excellent and competent leadership of the Executive Committee during the six years of his tenure. The Board was delighted to appoint Wing Commander John (Ian) Cumming MBE Royal Air Force (retired) as Chief Executive on 2 July 2018.

Secretary

Andrew Cowan

ERSKINE HOSPITAL

BOARD OF TRUSTEES' REPORT (INCORPORATING THE STRATEGIC REPORT) FOR THE YEAR ENDED 30 SEPTEMBER 2018

Advisors

Independent auditor:	Scott-Moncrieff 25 Bothwell Street Glasgow G2 6NL	Internal auditors:	KPMG 319 St Vincent Street Glasgow G2 5AS
Bankers:	Royal Bank of Scotland 1 Moncrieff Street Paisley PA3 2AW	Investment managers:	Brewin Dolphin 6 th Floor, Atria One Edinburgh EH3 6PP
Solicitors and registered office:	T C Young 7 West George Street Glasgow G2 1BA		

Auditor

A resolution to reappoint Scott-Moncrieff as auditor will be put to the General Council at the forthcoming Annual General Meeting.

Statement of the trustees' responsibilities in respect of the financial statements

The trustees are responsible for preparing the Board of Trustees' Report (incorporating the Strategic Report) and the financial statements in accordance with applicable law and regulations.

Charity and Company law requires the trustees to prepare financial statements for each financial year. Under that law the trustees have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting standards including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice). Under company law the trustees must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of the charitable company and of the income and expenditure of the charitable company for that period. In preparing these financial statements, the trustees are required to:

- select suitable accounting policies and then apply them consistently;
- observe the methods and principles in the Charities SORP;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether the UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charitable company will continue in business.

The trustees are responsible for keeping adequate accounting records that are sufficient to show and explain the charitable company's transactions and disclose with reasonable accuracy at any time the financial position of the charitable company and enable them to ensure that the financial statements comply with the Companies Act 2006, the Charities and Trustee Investment (Scotland) Act 2005 and Regulation 8 of the Charities Accounts (Scotland) Regulations 2006 (as amended). They are also responsible for safeguarding the assets of the charitable company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The trustees are also responsible for ensuring that the assets are properly applied in accordance with charity law.

ERSKINE HOSPITAL

**BOARD OF TRUSTEES' REPORT (INCORPORATING THE STRATEGIC REPORT)
FOR THE YEAR ENDED 30 SEPTEMBER 2018**

Disclosure of information to the auditor

To the knowledge and belief of each of the persons who are trustees at the time the report is approved:

- So far as the trustee is aware, there is no relevant audit information of which the charitable company's auditor is unaware; and
- He/she has taken all the steps that he/she ought to have taken as trustee in order to make himself/herself aware of any relevant information, and to establish that the charitable company's auditor is aware of the information.

By Order of the Board of Trustees, the Board of Trustees' Report (incorporating the Strategic Report) is signed by:



Robin Crawford, Chairman

Date: 20 March 2019

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS AND TRUSTEES OF ERSKINE HOSPITAL
FOR THE YEAR ENDED 30 SEPTEMBER 2018**

Opinion

We have audited the financial statements of Erskine Hospital (the 'charitable company') for the year ended 30 September 2018 which comprise the Statement of Financial Activities (incorporating the Income and Expenditure Account), the Balance Sheet, the Statement of Cash Flows and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the charitable company's affairs as at 30 September 2018 and of its income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006, the Charities and Trustee Investment (Scotland) Act 2005 and regulation 8 of the Charities Accounts (Scotland) Regulations 2006 (as amended).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the charitable company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the United Kingdom, including the Financial Reporting Council's Ethical Standard, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in which the ISAs (UK) require us to report to you where:

- the trustees' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the trustees have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the charitable company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The trustees are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS AND TRUSTEES OF ERSKINE HOSPITAL
FOR THE YEAR ENDED 30 SEPTEMBER 2018**

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Board of Trustees' Report (incorporating the Strategic Report) for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Board of Trustees' Report (incorporating the Strategic Report) has been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the charitable company and its environment obtained in the course of the audit, we have not identified material misstatements in the Board of Trustees' Report (incorporating the Strategic Report).

We have nothing to report in respect of the following matters where the Companies Act 2006 and the Charities Accounts (Scotland) Regulations 2006 (as amended) requires us to report to you if, in our opinion:

- adequate and sufficient accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of trustees' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of trustees

As explained more fully in the trustees' responsibilities statement set out on page 16, the trustees (who are directors for the purposes of company law and trustees for the purposes of charity law) are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the trustees are responsible for assessing the charitable company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the trustees either intend to liquidate the charitable company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

We have been appointed as auditor under Section 44(1)(a) of the Charities and Trustee Investment (Scotland) Act 2005 and under the Companies Act 2006 and report in accordance with the Acts and relevant regulations made or having effect thereunder.

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

ERSKINE HOSPITAL

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS AND TRUSTEES OF ERSKINE HOSPITAL
FOR THE YEAR ENDED 30 SEPTEMBER 2018**

Use of our report

This report is made solely to the charitable company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and to the charitable company's trustees, as a body, in accordance with Regulation 10 of the Charities Accounts (Scotland) Regulations 2006 (as amended).

Our audit work has been undertaken so that we might state to the charitable company's members, as a body, and the charitable company's trustees, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the charitable company, the charitable company's members, as a body, and its trustees, as a body, for our audit work, for this report, or for the opinions we have formed.



Gillian Donald, Senior Statutory Auditor

For and on behalf of Scott-Moncrieff, Statutory Auditor

Chartered Accountants

Eligible to act as an auditor in terms of section 1212 of the Companies Act 2006

25 Bothwell Street

Glasgow

G2 6NL

Date: 20 March 2019

ERSKINE HOSPITAL

STATEMENT OF FINANCIAL ACTIVITIES
(INCORPORATING INCOME & EXPENDITURE ACCOUNT)
FOR THE YEAR ENDED 30 SEPTEMBER 2018

	Note	Unrestricted funds 2018 £'000	Restricted funds 2018 £'000	Total 2018 £'000	Total 2017 £'000
Income and endowments					
Donations and legacies	5	7,773	1,009	8,782	12,587
Charitable activities	6	15,035	-	15,035	14,512
Investment income	7	1,516	-	1,516	1,676
Other income		9	-	9	21
Total income and endowments		24,333	1,009	25,342	28,796
Expenditure					
Raising funds	8	1,738	-	1,738	2,105
Charitable activities	9	23,642	379	24,021	22,651
Investment management costs		147	-	147	123
Total expenditure		25,527	379	25,906	24,879
Net (expenditure)/income prior to gains/(losses) on investments		(1,194)	630	(564)	3,917
Gains/(losses) on investments					
Realised gain/(loss) on disposal of fixed asset investments	15	133	-	133	(275)
Unrealised investment gains	15	1,452	-	1,452	1,566
Unrealised investment property gains	14	-	-	-	232
Total gains on investments		1,585	-	1,585	1,523
Net income for the year		391	630	1,021	5,440
Other recognised gains					
Actuarial gain on defined benefit pension scheme	20	618	-	618	1,785
Transfers between funds	21	1,009 405	630 (405)	1,639 -	7,225 -
Net movement in funds	12	1,414	225	1,639	7,225
Total funds brought forward	21	82,333	345	82,678	75,453
Total funds carried forward	21	83,747	570	84,317	82,678

Note: The Statement of Financial Activities includes all gains and losses recognised in the year.

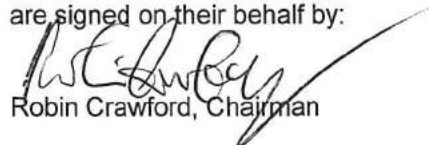
The notes on pages 24 to 42 form part of these financial statements

ERSKINE HOSPITAL

BALANCE SHEET
AS AT 30 SEPTEMBER 2018

	Note	2018 £'000	2017 £'000
Fixed assets			
Tangible assets	13	32,925	31,352
Investment property	14	1,821	2,061
Other investments	15	43,338	41,557
		<u>78,084</u>	<u>74,970</u>
Current assets			
Debtors	16	3,584	4,814
Cash and cash equivalents		5,635	6,507
		<u>9,219</u>	<u>11,321</u>
Creditors: amounts falling due within one year	17	<u>(1,760)</u>	<u>(1,784)</u>
Net current assets		<u>7,459</u>	<u>9,537</u>
Net assets excluding provisions and pension liability		<u>85,543</u>	<u>84,507</u>
Provision for liabilities	19	(1,226)	(1,226)
Pension liability	20	-	(603)
Net assets		<u>84,317</u>	<u>82,678</u>
Funds			
Restricted funds	21	570	345
Unrestricted funds:			
Designated funds	21	62,851	64,266
Other charitable funds	21	20,896	18,670
		<u>83,747</u>	<u>82,936</u>
Pension reserve	21	-	(603)
		<u>83,747</u>	<u>82,333</u>
	21	<u>84,317</u>	<u>82,678</u>

The financial statements have been authorised for issue by the Board of Trustees on 20 March 2019 and are signed on their behalf by:


Robin Crawford, Chairman

Scottish Charity No: SC006609
Company No: SC174103

The notes on pages 24 to 42 form part of these financial statements

ERSKINE HOSPITAL

**STATEMENT OF CASH FLOWS
FOR THE YEAR TO 30 SEPTEMBER 2018**

	Note	2018 £'000	2017 £'000
Cash flows from operating activities			
Net cash provided by operating activities	22	1,033	3,650
Cash flows from investing activities			
Purchase of tangible fixed assets		(3,747)	(590)
Proceeds from disposal of tangible fixed assets		410	21
Proceeds from disposal of investment property		240	-
Purchase of investments		(7,219)	(7,913)
Proceeds from disposal of investments		7,023	5,900
Dividends received		1,378	1,554
Interest received		10	2
Net cash used in investing activities		(1,905)	(1,026)
(Decrease)/increase in cash and cash equivalents in the year		(872)	2,624
Cash and cash equivalents at 1 October		6,507	3,883
Cash and cash equivalents at 30 September		5,635	6,507

The notes on pages 24 to 42 form part of these financial statements

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 30 SEPTEMBER 2018

1. General information

These financial statements are presented in pounds sterling (GBP) as that is the currency in which the charitable company's transactions are denominated. They comprise the financial statements of the charitable company.

The principal activity of Erskine Hospital has continued to be the provision of nursing, dementia and respite care to ex-Service men and women. Following a review of our eligibility criteria this care is now available to qualifying spouses, members of the merchant marine who were deployed on active service, in support of the armed forces, members of the Royal Fleet Auxiliary and members of the Home Guard.

Erskine Hospital is a private company limited by guarantee incorporated in the United Kingdom and registered in Scotland. It is recognised as a charitable company for tax purposes by HMRC and is registered with the Office of the Scottish Charity Regulator (OSCR) under charity number SC006609. In the event of the winding up of the charitable company a member is liable to contribute a sum not exceeding £1. Details of the registered office and registered number can be found in the Board of Trustees' Report (incorporating the Strategic Report).

2. Principal accounting policies

The principal accounting policies applied in the preparation of these financial statements are noted below. These policies have been applied consistently to all the years presented, in dealing with items which are considered material in relation to the charitable company's financial statements unless otherwise stated.

Basis of accounting

The financial statements are prepared under the historical cost convention, modified to include investment properties and fixed asset investments at fair value and in accordance with United Kingdom Accounting Standards, including the Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' ("FRS 102") (United Kingdom Generally Accepted Accounting Practice), the Statement of Recommended Practice (SORP) 'Accounting and Reporting by Charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102)', the Companies Act 2006, the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended).

Erskine Hospital meets the definition of a public benefit entity under FRS 102. Assets and liabilities are initially recognised at historical cost or transaction value unless otherwise stated in the relevant accounting policy.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires Trustees to exercise their judgement in the process of applying the accounting policies (see note 3).

Going concern

Erskine Hospital has no borrowings and strong net assets therefore the Trustees believe it is appropriate that the financial statements have been prepared on a going concern basis.

Consolidation

These financial statements are for the charitable company only. The result and Balance Sheet of the subsidiary undertaking, Erskine Developments Limited, has not been consolidated on the grounds of lack of materiality. Erskine Hospital presents information about it as an individual undertaking and not in respect of the group.

2. Principal accounting policies (continued)

Income recognition

All income is included in the Statement of Financial Activities when the charitable company is entitled to the income, it is probable that the income will be received and the amount can be measured reliably. The following specific policies are applied to particular categories of income:

- Donation income is received by way of grants and donations and is included in full in the Statement of Financial Activities when the charitable company becomes entitled to the funds, it is probable that the income will be received and the amount can be measured reliably.
- Legacies are recognised at fair value when the executor is satisfied that the gift will not be required to meet claims on the estate and any conditions have been met or are within the control of the charitable company.
- Income from charitable activities is accounted for when earned.
- Dividend income is recognised when dividends are declared and the stock becomes ex-dividend.
- Other income is recognised when the charitable company is entitled to the income and the amount can be measured reliably.

Capital grants

Capital expenditure has been and will be incurred on fixed assets and may be eligible for grant assistance. Where this is the case, grants are credited to restricted funds. Once the restriction has been satisfied, the balance is reallocated to a designated fund. The relevant depreciation charge is debited to this designated fund.

Capital grants are recognised when the charitable company is entitled to the grant, it is probable that the income will be received and the amount can be measured reliably.

Expenditure recognition

Expenditure is recognised on an accruals basis as a liability is incurred. Expenditure includes any VAT which cannot be fully recovered, and is reported as part of the expenditure to which it relates:

- Raising funds costs comprise the costs associated with attracting voluntary income.
- Charitable expenditure comprises those costs incurred by the charitable company in the delivery of its activities and services for its beneficiaries. It includes both costs that can be allocated directly to such activities and those costs of an indirect nature necessary to support them.
- Other expenditure comprises those costs incurred by the charitable company that are not related to its activities.
- Governance costs comprise those costs associated with meeting the constitutional and statutory requirements of the charitable company and include the audit fees and costs linked to the strategic management of the charitable company.
- Support costs are allocated between care homes expenditure and raising funds in accordance with an estimate of staff time spent on each activity.

Pensions

Erskine Hospital operates a defined benefit pension scheme which was closed to new entrants on 15 August 2001. Movements in the overall position of the defined benefit pension scheme are included in the Statement of Financial Activities. The defined benefit pension scheme was closed to future accrual on 1 August 2010.

2. Principal accounting policies (continued)

Pensions (continued)

A defined contribution section of the Scheme was established in October 2001 for new employees. A resolution was passed on 29 August 2012 to wind up this section of the Scheme and a new pension arrangement was launched on 1 July 2012. Contributions are charged in the Statement of Financial Activities as they become payable in accordance with the Scheme Rules.

The assets of the Schemes are held separately from those of Erskine Hospital in independently administered funds.

Any scheme surpluses are only recognisable on the balance sheet to the extent that Erskine can recover the surplus through reduced contributions in the future or through refunds from the Scheme.

Operating leases

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged to expenditure on a straight line basis over the period of the lease.

Operating lease income is recognised in income on a straight line basis over the period of the lease.

Fixed assets

The premises and equipment transferred to the charitable company on its incorporation were not capitalised in the Balance Sheet and any proceeds from the sale of surplus land or buildings will be shown as a gain on disposal. No value is included in the financial statements in respect of the land owned by the charitable company. On the initial construction of a new building all items are capitalised and then any subsequent repairs and replacements are written off to expenditure except for major alterations. The purchase of motor vehicles is treated as a capital item. Other assets are included at cost and are being depreciated over the following periods:

	Care Homes	Reid Macewen Training Centre	Glasgow Rec Room
Buildings	40 years	40 years	33 years
Equipment, Furnishings, Machinery & Plant	4 - 10 years	-	-
Motor Vehicles	4 years	-	-

Cottages are depreciated over 60 years.

Depreciation charges commence in the month in which assets are brought into use.

In respect of assets in the course of construction no depreciation is charged until the assets are brought into use.

Investments and investment property

Listed investments and investment properties are included in the Balance Sheet at mid-market value. Gains and losses are recognised in the Statement of Financial Activities in the year in which they arise.

Investments in subsidiary undertakings are included at cost less accumulated impairment.

2. Principal accounting policies (continued)

Financial instruments

The charitable company only enters into basic financial instrument transactions that result in the recognition of financial assets and liabilities such as trade and other debtors and creditors, and loans to related parties. Debt instruments that are payable or receivable within one year are measured, initially and subsequently, at the undiscounted amount of the cash expected to be paid or received.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Statement of Financial Activities.

Investments are measured at fair value with the changes being recognised in the Statement of Financial Activities.

Debtors

Short term debtors are measured at transaction price, less any impairment.

Cash and cash equivalents

Cash at bank includes cash and short term highly liquid investments with a short maturity of twelve months or less from the date of acquisition or opening of the deposit or similar account.

Creditors

Short term trade creditors are measured at the transaction price.

Provision for liabilities

A provision is created when there is uncertainty surrounding the timing and amount of settlement of a liability. The provision will become binding when the uncertainty is removed.

Funds

Unrestricted funds are expendable at the discretion of the Trustees in the furtherance of the charitable company's objectives. Within unrestricted funds, the Trustees have earmarked funds for certain projects as designated funds.

Restricted funds have specific terms or conditions which have to be satisfied and these funds remain restricted until all the related conditions have been satisfied.

3. Judgements in applying policies and key sources of estimation uncertainty

In preparing the financial statements, Trustees are required to make estimates and assumptions which affect reported income, expenses, assets and liabilities. Use of available information and application of judgement are inherent in the formation of the estimates, together with past experience and expectations of future events that are believed to be reasonable under the circumstances. Actual results in the future could differ from such estimates.

The Trustees are satisfied that the accounting policies are appropriate and applied consistently. Key sources of estimation have been applied to legacy recognition, the pension assumptions, the valuation of investment property and the depreciation rates.

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 30 SEPTEMBER 2018

4. Comparative Statement of Financial Activities (incorporating Income & Expenditure Account)

	Unrestricted funds 2017 £'000	Restricted funds 2017 £'000	Total 2017 £'000
Income and endowment			
Donations and legacies	12,170	417	12,587
Charitable activities	14,512	-	14,512
Investment income	1,676	-	1,676
Other income	21	-	21
Total income and endowments	<u>28,379</u>	<u>417</u>	<u>28,796</u>
Expenditure			
Raising funds	2,105	-	2,105
Charitable activities	22,406	245	22,651
Investment management costs	123	-	123
Total expenditure	<u>24,634</u>	<u>245</u>	<u>24,879</u>
Net income prior to gains/(losses) on investments	3,745	172	3,917
Gains/(losses) on investments			
Unrealised investment gain	1,566	-	1,566
Realised loss on disposal of fixed asset investments	(275)	-	(275)
Unrealised investment property gains	232	-	232
Total gains on investments	<u>1,523</u>	<u>-</u>	<u>1,523</u>
Net income for the year	5,268	172	5,440
Other recognised gains			
Actuarial gain on defined benefit pension scheme	1,785	-	1,785
	<u>7,053</u>	<u>172</u>	<u>7,225</u>
Transfers between funds	119	(119)	-
Net movement in funds	<u><u>7,172</u></u>	<u><u>53</u></u>	<u><u>7,225</u></u>

ERSKINE HOSPITAL

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 30 SEPTEMBER 2018

5. Donations and legacies	Unrestricted funds 2018 £'000	Restricted funds 2018 £'000	Total 2018 £'000	<i>Total</i> 2017 £'000
Legacies	3,579	287	3,866	8,240
Donations	4,194	722	4,916	4,347
	<u>7,773</u>	<u>1,009</u>	<u>8,782</u>	<u>12,587</u>
6. Charitable activities income	Unrestricted funds 2018 £'000	Restricted funds 2018 £'000	Total 2018 £'000	<i>Total</i> 2017 £'000
Care home fees and miscellaneous income	15,009	-	15,009	14,449
Social firms income	26	-	26	63
	<u>15,035</u>	<u>-</u>	<u>15,035</u>	<u>14,512</u>
7. Investment income	Unrestricted funds 2018 £'000	Restricted funds 2018 £'000	Total 2018 £'000	<i>Total</i> 2017 £'000
Dividends received	1,378	-	1,378	1,554
Rental income	128	-	128	120
Interest received	10	-	10	2
	<u>1,516</u>	<u>-</u>	<u>1,516</u>	<u>1,676</u>

At 30 September 2018 the charitable company had minimum lease receipts due under non-cancellable operating leases as follows:

	2018 £'000	2017 £'000
Not later than one year	128	128
Later than one year and not later than five years	512	512
Later than five years	2,059	2,187
	<u>2,699</u>	<u>2,827</u>

ERSKINE HOSPITAL

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 30 SEPTEMBER 2018

8. Raising funds	Unrestricted funds 2018 £'000	Restricted funds 2018 £'000	Total 2018 £'000	Total 2017 £'000
Staff costs – direct	550	-	550	637
Staff costs – apportioned	155	-	155	250
Marketing & communications	111	-	111	195
Office & vehicle costs – direct	178	-	178	191
Office & vehicle costs – apportioned	183	-	183	190
Donor development campaign	561	-	561	642
	<u>1,738</u>	<u>-</u>	<u>1,738</u>	<u>2,105</u>
9. Charitable activities expenditure	Unrestricted funds 2018 £'000	Restricted funds 2018 £'000	Total 2018 £'000	Total 2018 £'000
Care homes and miscellaneous				
Nursing staff	11,456	39	11,495	10,654
Care support staff	2,985	1	2,986	2,935
Maintenance & repairs	1,686	216	1,902	2,777
Irrecoverable VAT, insurance & training	1,181	-	1,181	1,148
Utilities	797	-	797	713
Food, transport & comforts	701	-	701	593
Medical & domestic supplies	512	114	626	701
Development costs	13	-	13	-
Grant to RBLI	400	-	400	-
Reid Macewen Activities centre	340	9	349	-
Loss on disposal of fixed assets	486	-	486	-
Support costs				
Management & administration	1,498	-	1,498	1,422
Marketing of care	222	-	222	-
Depreciation & impairment	1,288	-	1,288	1,452
Net return on pension scheme	15	-	15	50
Governance costs (note 10)	62	-	62	66
	<u>23,642</u>	<u>379</u>	<u>24,021</u>	<u>22,511</u>
Social firms				
Cost of sales and staff costs	-	-	-	79
Depreciation	-	-	-	61
	<u>-</u>	<u>-</u>	<u>-</u>	<u>140</u>
	<u>23,642</u>	<u>379</u>	<u>24,021</u>	<u>22,651</u>
10. Governance costs			2018 £'000	2017 £'000
Company secretary costs			12	18
External auditor – audit services			23	22
External auditor – taxation compliance			4	4
Internal audit			23	22
			<u>62</u>	<u>66</u>

ERSKINE HOSPITAL

**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 30 SEPTEMBER 2018**

11. Staff costs	2018	<i>2017</i>
	£'000	<i>£'000</i>
Wages and salaries	13,926	<i>13,209</i>
Social security costs	1,056	<i>958</i>
Pension scheme costs - defined contribution	1,130	<i>1,020</i>
	16,112	<i>15,187</i>

Agency costs of £293,765 (2017 - £620,186) are included within wages and salaries above.

These costs and the analysis below include full-time, part-time and agency staff.

	2018	<i>2017</i>
	No.	<i>No.</i>
Number of employees with emoluments over £60,000:		
£60,000 - £69,999	1	<i>1</i>
£70,000 - £79,999	1	<i>-</i>
£90,000 - £99,999	-	<i>1</i>

	2018	<i>2017</i>
	£	<i>£</i>
The pension contributions for the above employees were:	14,255	<i>21,360</i>

Two (2017 - two) employees with emoluments over £60,000 were members of the defined contribution pension scheme.

	2018	<i>2017</i>
	No.	<i>No.</i>
The average number of employees analysed by function was:		
Nursing and therapy	490	<i>485</i>
Support services	188	<i>175</i>
Activities	25	<i>25</i>
Social firms	4	<i>1</i>
Management and administration	35	<i>34</i>
Fundraising, marketing and communications	18	<i>21</i>
	760	<i>741</i>

Key management personnel

Key management personnel comprises the Board of Trustees, the Chief Executive, the Executive Management Team and the 4 care home managers. No Trustees received remuneration in respect of duties performed (2017 - £nil). Travel expenses of £1,156 were paid to two Trustees in the year (2017 - £1,078: two Trustees). Other key management personnel received remuneration of £563,728 (2017 - £556,945), social security costs of £59,872 (2017 - £55,709) and pension contributions of £48,634 (2017 - £54,099).

ERSKINE HOSPITAL

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 30 SEPTEMBER 2018

12. Net movement in funds

	2018	2017
	£'000	£'000
Net movement in funds is stated after charging/(crediting):		
Depreciation and impairment	1,288	1,513
Auditor's remuneration – audit fees	23	22
Auditor's remuneration – taxation compliance	4	4
Interest received	(10)	(2)
Operating lease rentals	72	72
	<u>1,377</u>	<u>1,585</u>

13. Tangible fixed assets

	Freehold buildings £'000	Social firms & other buildings £'000	Assets under construction £'000	Motor vehicles £'000	Hospital equipment & furnishings £'000	Total £'000
Cost						
At 1 October 2017	52,251	790	261	441	2,356	56,099
Additions	7	-	2,727	187	826	3,747
Disposals	(2,884)	-	-	(70)	-	(2,954)
Transfers	848	-	(848)	-	-	-
At 30 September 2018	<u>50,222</u>	<u>790</u>	<u>2,140</u>	<u>558</u>	<u>3,182</u>	<u>56,892</u>
Depreciation and impairment						
At 1 October 2017	21,630	653	-	236	2,228	24,747
Charge for the year	1,043	27	-	92	126	1,288
Disposals	(1,998)	-	-	(70)	-	(2,068)
At 30 September 2018	<u>20,675</u>	<u>680</u>	<u>-</u>	<u>258</u>	<u>2,354</u>	<u>23,967</u>
Net book value						
30 September 2018	<u>29,543</u>	<u>110</u>	<u>2,144</u>	<u>300</u>	<u>828</u>	<u>32,925</u>
30 September 2017	<u>30,621</u>	<u>137</u>	<u>261</u>	<u>205</u>	<u>128</u>	<u>31,352</u>

ERSKINE HOSPITAL

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 30 SEPTEMBER 2018

14. Investment property	£'000
At 1 October 2017	2,061
Disposals	(240)
	<hr/>
At 30 September 2018	1,821
	<hr/> <hr/>

The Garden Centre was independently valued as at 30 September 2018 by David Hall, FRICS, of Shepherd Chartered Surveyors. The furniture store and furniture factory were independently valued as at 30 September 2017 by David Hall, FRICS, of Shepherd Chartered Surveyors. The valuations were carried out on an existing use basis.

15. Fixed asset investments	Subsidiary undertakings £'000	Other investments £'000	Total 2018 £'000
Market value at 1 October 2017	1	41,556	41,557
Additions	-	7,219	7,219
Disposals at open market value (proceeds £7,023,000, gain £133,000)	-	(6,890)	(6,890)
Movement in market value	-	1,452	1,452
	<hr/>	<hr/>	<hr/>
Market value at 30 September 2018	1	43,337	43,338
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Investment in subsidiary undertaking

The result and Balance Sheet of the subsidiary undertaking is listed below. Erskine Developments Limited is wholly owned by the Hospital and has not been consolidated on the grounds of lack of materiality. Erskine Developments Limited's registered office is 7 West George Street, Glasgow, G2 1BA.

The share capital and reserves of the subsidiary undertaking not consolidated, taken from the latest set of accounts, are as follows.

	Share capital & reserves £'000	Country of incorporation	Loss for the year £'000	Principal activity
Erskine Developments Ltd * (as at 30.09.18)	(23)	Scotland	(2)	Development

* 100% of voting rights and ordinary shares held by the company.

ERSKINE HOSPITAL

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 30 SEPTEMBER 2018

	2018 £'000	2017 £'000
16. Debtors		
Trade debtors	444	585
Amounts due from subsidiary undertakings	22	19
Other debtors	152	141
Prepayments and accrued income	2,966	4,069
	<u>3,584</u>	<u>4,814</u>

Trade debtors are shown net of the bad debt provision of £83,666 (2017 - £49,276). Movements in the bad debt provision are included within support costs.

	2018 £'000	2017 £'000
17. Creditors: amounts falling due within one year		
Trade creditors	856	923
Other taxes & social security costs	14	8
Amounts payable to subsidiary undertakings	17	17
Other creditors	873	836
	<u>1,760</u>	<u>1,784</u>

Included within other creditors is pension contributions of £103,991 (2017 - £87,128) outstanding at the year end.

	2018 £'000	2017 £'000
18. Financial instruments		
Financial assets		
Cash and cash equivalents	5,635	6,507
Financial assets measured at fair value	45,001	43,618
Financial assets measured at amortised cost	3,298	4,573
	<u>53,934</u>	<u>54,698</u>
Financial liabilities		
Financial liabilities measured at amortised cost	1,746	1,776

Financial assets measured at fair value comprise investment property and other investments.

Financial assets measured at amortised cost comprise trade debtors, amounts due from subsidiary undertakings, other debtors and accrued income.

Financial liabilities measured at amortised cost comprise trade creditors, amounts payable to subsidiary undertakings and other creditors.

ERSKINE HOSPITAL

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 30 SEPTEMBER 2018

19. Provision for liabilities	2018 £'000	2017 £'000
At 1 October 2017	1,226	1,418
Transfer to other creditors	-	(192)
At 30 September 2018	<u>1,226</u>	<u>1,226</u>

A number of years ago, funding was received to set up social firm operations. Some of these activities were discontinued in 2012 and accordingly, a provision was created for the potential repayment of this funding. The print building was sold and Erskine Hospital repaid £192k of the original funding in 2018. This amount was transferred to other creditors in 2017 as the settlement amount was known. There is uncertainty surrounding the liability, timing and amount of any remaining settlement.

The provision for liabilities is secured over the buildings which the grant income was received for.

20. Pension commitments

Erskine Hospital operates a pension scheme providing benefits based on revalued average pensionable salary. The scheme is funded by the payment of contributions to a separately administered trust fund. The scheme was closed to new entrants on 15 August 2001, and closed to future accrual on 1 August 2010.

The contributions to the scheme are determined with the advice of an independent qualified actuary on the basis of triennial valuation using the projected unit valuation method. A full actuarial valuation was undertaken as at 5 April 2018, which shows a surplus of £2.06m in the Scheme and a funding level of 108%. The year-end valuation has also been prepared using the projected unit valuation method.

The major financial assumptions used by the actuary were:

	At 30 September 2018	At 30 September 2017
Rate of future salary increases	3.95%	4.40%
Rate of increase of pensions in payment	1.90%	1.85%
Rate of increase of deferred pensions	2.45%	2.40%
Discount rate	2.80%	2.60%
Inflation assumption	2.45%	2.40%
Mortality tables	SAPS tables +1 year age rating, year of birth, CMI 2017 long term improvements of 1.25% with a smoothing parameter of 7.5	SAPS tables +1 year age rating, year of birth, CMI 2016 long term improvements of 1.25% with a smoothing parameter of 7.5

The mortality assumptions adopted imply the following life expectancies from age 65:

	2018	2017
Male currently aged 40	22.9 years	23.1 years
Male currently aged 45	22.5 years	22.6 years
Male currently aged 65	21.1 years	21.2 years
Female currently aged 40	25.0 years	25.0 years
Female currently aged 45	24.6 years	24.6 years
Female currently aged 65	23.0 years	23.1 years

ERSKINE HOSPITAL

**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 30 SEPTEMBER 2018**

20. Pension commitments (continued)

The following amounts are recognised in the Balance Sheet:

The assets in the Scheme and the expected rates of return were:

	Value at 30/09/18 £'000	% of Scheme assets	<i>Value at 30/09/17 £'000</i>	<i>% of Scheme assets</i>
Equities	4,962	18.10%	4,490	16.00%
Corporate bonds	877	3.20%	898	3.20%
Annuity policy	12,171	44.40%	13,244	47.20%
Property	1,617	5.90%	1,487	5.30%
Cash	247	0.90%	196	0.70%
LDI	2,851	10.40%	2,975	10.60%
Diversified growth fund	4,688	17.10%	4,770	17.00%
	<hr/>		<hr/>	
Fair value of scheme assets	27,413		28,060	
Present value of funded liabilities	(25,177)		(28,663)	
Unrecognised surplus	(2,236)		-	
	<hr/>		<hr/>	
Deficit in scheme	-		(603)	
	<hr/> <hr/>		<hr/> <hr/>	

Changes in the fair value of scheme assets are as follows:

	2018 £'000	<i>2017 £'000</i>
Opening fair value of scheme assets	28,060	29,346
Finance income	717	616
Actuarial losses	(384)	(487)
Benefits paid	(980)	(1,415)
	<hr/>	<hr/>
Closing fair value of scheme assets	27,413	28,060

Changes in the present value of the scheme liabilities are as follows:

	2018 £'000	<i>2017 £'000</i>
Opening defined benefit liability	28,663	31,684
Interest cost	732	666
Actuarial gains	(3,238)	(2,272)
Benefits paid	(980)	(1,415)
	<hr/>	<hr/>
Closing defined benefit liability	25,177	28,663
	<hr/>	<hr/>
Actual return on scheme assets	333	129
	<hr/> <hr/>	<hr/> <hr/>

ERSKINE HOSPITAL

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 30 SEPTEMBER 2018

20. Pension commitments (continued)

History of experience gains/(losses)	2018 £'000	2017 £'000	2016 £'000	2015 £'000	2014 £'000
Scheme assets	27,413	28,060	29,346	26,090	26,906
Defined benefit liability	(25,177)	(28,663)	(31,684)	(24,955)	(27,470)
Surplus/(deficit) in Scheme	2,236	(603)	(2,338)	1,135	(564)
Experience adjustments on scheme assets	(384)	(487)	3,461	(601)	(1,402)
Experience adjustments on scheme liabilities	2,647	261	61	3,390	(70)

The following are recognised in the Statement of Financial Activities:

	2018 £'000	2017 £'000
Analysis of net return on pension scheme:		
Finance income	717	616
Interest cost	(732)	(666)
Net expense	<u>(15)</u>	<u>(50)</u>
Analysis of actuarial gain/(loss)		
Actual return less expected return on pension scheme assets	(384)	(487)
Experience gains and losses on liabilities	2,647	261
Changes in assumptions	591	2,011
Adjustment in respect of irrecoverable surplus	(2,236)	-
Actuarial gain to be recognised	<u>618</u>	<u>1,785</u>

The cumulative amount of actuarial losses taken to the statement of financial activities since the deficit was incorporated into the financial statements is £10.863m.

Movement in deficit during the year:	2018 £'000	2017 £'000
Deficit in scheme at the beginning of the year	(603)	(2,338)
Movement in the year:		
Net return on pension scheme	(15)	(50)
Actuarial gain	618	1,785
Deficit in scheme at the end of the year	<u>-</u>	<u>(603)</u>

In May 2014, the defined benefit pension scheme purchased a group annuity policy to match the liabilities within the scheme. Erskine is not currently required to make any payments to the scheme.

ERSKINE HOSPITAL

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 30 SEPTEMBER 2018

21. Funds 2018	As at 30 September 2017 £'000	Income and endowments £'000	Expenditure £'000	Gains	Transfers / reallocations £'000	As at 30 September 2018 £'000
Restricted funds:						
Donations	345	1,009	(379)	-	(405)	570
Unrestricted funds:						
Designated (see below)						
Tangible fixed assets	31,352	-	(1,288)	-	2,861	32,925
Investment property	2,061	-	-	-	(240)	1,821
Revaluation reserve	268	-	-	-	(161)	107
Lifecycle costs	3,839	-	(1,322)	-	783	3,300
Care home and Social Firms' deficits	18,650	-	-	-	184	18,834
Capital and maintenance projects	4,647	-	(65)	-	(1,006)	3,576
Accrued donations & legacies	3,449	-	-	-	(1,161)	2,288
Total designated funds	64,266	-	(2,675)	-	1,260	62,851
Other charitable funds	18,670	24,333	(22,837)	1,585	(855)	20,896
Pension reserve (note 20)	(603)	-	(15)	618	-	-
Net other charitable funds	18,067	24,333	(22,852)	2,203	(855)	20,896
Total unrestricted funds	82,333	24,333	(25,527)	2,203	405	83,747
Total funds	82,678	25,342	(25,906)	2,203	-	84,317

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FOR THE YEAR ENDED 30 SEPTEMBER 2018

21. Funds (continued) 2017	As at 30 September 2016 £'000	Income and endowments £'000	Expenditure £'000	Gains £'000	Transfers / reallocations £'000	As at 30 September 2017 £'000
Restricted funds:						
Donations	292	417	(245)	-	(119)	345
Unrestricted funds:						
<i>Designated (see below)</i>						
Tangible fixed assets	32,604	-	(1,213)	-	(39)	31,352
Investment property	1,500	-	-	232	329	2,061
Revaluation reserve	36	-	-	-	232	268
Lifecycle costs	4,108	-	(1,169)	-	900	3,839
Care home and Social Firms' deficits	17,644	-	-	-	1,006	18,650
Capital and maintenance projects	2,000	-	(611)	-	3,258	4,647
Accrued donations & legacies	2,904	-	-	-	545	3,449
Total designated funds	60,796	-	(2,993)	232	6,231	64,266
Other charitable funds	16,703	28,379	(21,591)	1,291	(6,112)	18,670
Pension reserve (note 21)	(2,338)	-	(50)	1,785	-	(603)
Net other charitable funds	14,365	28,379	(21,641)	3,076	(6,112)	18,067
Total unrestricted funds	75,161	28,379	(24,634)	3,308	119	82,333
Total funds	75,453	28,796	(24,879)	3,308	-	82,678

Restricted funds consist of restricted donations. In particular, £6,000 from the Big Lottery Fund Awards for All towards outdoor activities at Castle Semple, £15,500 from the Scottish Veterans Fund, being the second year of a two year grant towards the Dementia Nurse Consultant post (£30,000 in total), £124,031 from The LIBOR Fund, funding the Dementia Nurse Consultant post, this was received in one lump sum to pay for the post over three years, and £25,000 from the Royal Air force Benevolent Fund towards the construction of 24 Independent Living apartments on the Erskine Bishopton estate were received. The balance is made up of many other restricted donations and legacies for different projects and services, for example, £256k restricted legacy towards the building of the Assisted Living Apartments, £80k restricted donation towards the building of the sunrooms in the Erskine Home and £110k towards the purchase of four vehicles.

Erskine Hospital also received an unrestricted donation of £40,000 from the Royal Navy and Royal Marines towards the cost of caring for Royal Navy and Royal Marine veterans in the Erskine Home.

Designated funds consist of:

Tangible fixed assets, investment property and revaluation reserve

Erskine Hospital received restricted funds for the tangible fixed assets and investment property. As the restrictions to acquire the assets have been met and there are no on-going restrictions, these funds, including the revaluation reserve, have been included in designated funds. Transfers are made annually to ensure the closing balance agrees to the year end tangible assets and investment property values.

21. Funds (continued)

Designated funds (continued)

Lifecycle costs

During the prior year a full conditions report on our buildings covering fabric, mechanical and electrical systems was undertaken by an external surveyor. The report identified that over the next 5 years there would be a requirement to spend £3.3m on lifecycle maintenance to maintain the integrity of our buildings. In accordance with the specialist advice received the Trustees initially set aside £3.3m. In 2017/18 £1.32m of expenditure was incurred and £0.78m was transferred to the reserve.

Care home and social firms' deficits

The Trustees have set aside £18.83m representing the anticipated deficits in the care homes and social firms over the next 2 years, based on the deficit anticipated for 2018/19. This takes into account the long term nature of care provision at Erskine Hospital.

Capital and maintenance projects

The Trustees set aside £4.65m in the previous years to be used in capital and maintenance projects. In 2017/18 £1.07m of expenditure was incurred, £1.01m of this being capital in nature (which is included as a transfer). At the year end total capital expenditure of £3.58m has been approved by the Board and this amount has been designated.

Accrued legacies

In accordance with the Statement of Recommended Practice (SORP) "Accounting and Reporting by Charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102)", Erskine Hospital is required to recognise income when it is probable that the income will be received. £2.01m of legacies and £277k of donations have been accrued at 30 September 2018. This amount has been designated until the cash is received and available for use by Erskine Hospital.

Analysis of net assets among funds: 2018	Fixed assets £'000	Other net assets £'000	Total 2018 £'000
Restricted funds:			
Donations	-	570	570
Unrestricted funds:			
Designated funds	60,563	2,288	62,851
Other charitable funds	17,521	3,375	20,896
	<u>78,084</u>	<u>5,663</u>	<u>83,747</u>
Pension reserve	-	-	-
	<u>78,084</u>	<u>5,663</u>	<u>83,747</u>
	<u>78,084</u>	<u>6,233</u>	<u>84,317</u>

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21. Funds (continued)

Analysis of net assets among funds: 2017	Fixed assets £'000	Other net assets £'000	Total 2017 £'000
Restricted funds:			
Donations	-	345	345
Unrestricted funds:			
Designated funds	64,266	-	64,266
Other charitable funds	10,704	7,966	18,670
	<u>74,970</u>	<u>7,966</u>	<u>82,936</u>
Pension reserve	-	(603)	(603)
	<u>74,970</u>	<u>7,363</u>	<u>82,333</u>
	<u>74,970</u>	<u>7,708</u>	<u>82,678</u>

22. Reconciliation of net (expenditure)/income to net cash provided by operating activities	2018 £'000	2017 £'000
Net (expenditure)/income for the year	(564)	3,917
Depreciation and impairment	1,288	1,513
Loss/(gain) on sale of tangible fixed assets	476	(21)
Decrease/(increase) in debtors	1,230	(814)
(Decrease)/increase in creditors and provisions	(24)	561
Dividends received	(1,378)	(1,554)
Interest received	(10)	(2)
Net return on pension scheme	15	50
Net cash provided by operating activities	<u>1,033</u>	<u>3,650</u>

23. Related party transactions

During the year Erskine Hospital entered into the following transactions in the ordinary course of its activities, with related parties.

Related party	Transactions with related party £'000	Amounts owed to related party £'000	Amounts due from related party £'000
Erskine Developments Limited			
2017/2018	-	(17)	22
2016/2017	(5)	(17)	19

Payments to Erskine Developments Limited in 2017 related to landscaping work provided.

The amounts outstanding at the Balance Sheet date are unsecured for cash settlement in accordance with the usual terms.

ERSKINE HOSPITAL

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 SEPTEMBER 2018

24. Operating leases

At 30 September 2018 the charitable company had commitments under non-cancellable operating leases as set out below:

	2018	<i>2017</i>
	Other	<i>Other</i>
	£	£
Not later than one year	42,017	<i>72,029</i>
Later than one year and not later than five years	-	<i>42,017</i>
	<hr/> 42,017 <hr/>	<hr/> <i>114,046</i> <hr/>

Lease payments of £72,029 (2017 - £72,029) are included in the Statement of Financial Activities.

25. Capital commitments

Capital commitments which have been approved by the board amount to £3.576m (2017 - £4.647m). Included in this amount is £2.885m (2017 - £398k) which has been contracted for.

26. Members' rights in respect of a winding up of the company

Under the Articles of Association, the company is limited by guarantee and has no share capital. In the event of a winding up of the company each member's liability is restricted to £1.