

The Royal School of Needlework

Annual Report and Consolidated Financial Statements

31 August 2017

Company Registration Number
12192 (England and Wales)

Charity Registration Number
312774

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Reference and administrative information

Patron	HRH The Duchess of Cornwall
President	HRH The Duchess of Gloucester
Council Members	Mr Andrew Palmer – Chairman* Mrs Elizabeth Braakenburg Dyce Ms Nicola Clarke* Mrs Caroline De Guitaut Mrs Morgan Fowles Miss Samantha Hoe-Richardson – Honorary Treasurer* Ms Deborah Lamb Prof John Miles Mr Christopher Stooke* Mrs Sharan Wicks Mrs Stephanie Wright* *Members of the Finance and Investment Committee
Chief Executive	Dr Susan Kay-Williams
Registered office	Apartment 12A Hampton Court Palace East Molesey Surrey KT8 9AU
Auditor	Buzzacott LLP 130 Wood Street London EC2V 6DL
Bankers	Barclays Bank plc 8/12 Church Street Walton on Thames Surrey KT12 2QX
Investment managers	J M Finn & Co 4 Coleman Street London EC2R 5TA
Company registration number	12192 (England and Wales)
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CHAIRMAN'S INTRODUCTION

During the year, the RSN celebrated 30 years of being based at Hampton Court Palace and, thanks to the support of Historic Royal Palaces held two events to mark this occasion, a tea party and an exhibition of work by current and recent students showing work from all the main courses. The tea party was a joyous occasion of 180 people all there to celebrate the RSN, not just from a historical perspective but the thriving, lively, dynamic RSN of today. It was wonderful to meet so many supporters, especially those who have been Friends of the RSN not just for years, but for decades.

As part of the RSN's public benefit the exhibition, entitled *Embroidered at the Palace* was opened to all visitors to Hampton Court Palace for a five week period and more than 5,000 people came to have a look from Hampton Court's own team of Wardens to many international guests from as far afield as Canada, the USA and Brazil, to Russia, Japan and New Zealand, all were very welcome and highly complementary about the students' work.

The Studio had a good year, working on major new ecclesiastical commissions and a variety of conservation projects. It also collaborated with the contemporary pop artist Phillip Colbert to create a number of textile nudes as part of London Craft Week, as a way to show that the RSN Studio is able to work with many clients for different types of work.

There are many challenges for the RSN Degree team with more and more external oversight but the small team is building a course that has a growing reputation and appreciation from people in the sector, with a range of haute couture labels now seeking out RSN students for their practical skills, especially in the preparations for runway shows. We also welcome the opportunity to showcase students' work and were particularly pleased with the number of visitors to the exhibition of Second years' work at the Devon Guild of Craftsmen in May.

Core to the RSN are the Certificate and Diploma (C&D) programme and our Short Courses, both struggled this year showing a decline against an anticipated increase. This was a worrying position but by the end of the year Short Courses had managed to pull back some of the shortfall and ended the year ahead of 2016. Despite a very strong summer intensive, the C&D programme finished below its previous year position and this will be monitored closely this year.

The RSN is a diversified organisation and it is pleasing to report that retail, fundraising, Future Tutors, private lessons and international classes had a good year, achieving or exceeding targets so that the year ended with income just ahead of expenditure. I am particularly grateful to all those supporters who have donated to the campaign to digitise the RSN Collection and Archive. This will be an important project for 2018 and beyond but can only be achieved by raising external funding.

I would like to conclude by paying tribute to Nicholas Rochez who retired as Chairman in February after nine years on the RSN Council, originally serving under Brian Levy before becoming Chairman in 2012. He continued steering the RSN towards the more stable financial position that it now has. We were pleased to welcome both past Chairmen to the 30th anniversary tea party in the summer.

CHAIRMAN'S INTRODUCTION (continued)

The RSN runs with a very small staff team so, with all the Council I would like to thank the staff team for their work over the past year, especially when coping with a growing workload. There is immense commitment from the staff and tutors and we thank everyone for their contribution this year, as well as all the RSN volunteers who give so many hours to help continue the RSN's work.

A handwritten signature in black ink, appearing to read 'A. Palmer'.

Andrew Palmer

Chairman

CHIEF EXECUTIVE'S INTRODUCTION: LOOKING TO THE FUTURE

This last year has been filled with some great events and occasions but also a number of challenges. We will be reviewing the challenge areas over the coming year but will also strive to develop new opportunities to meet demand. For 2017-18, there will be a number of planned developments, which are aimed at offering RSN opportunities away from Hampton Court Palace and making us more available to a wider range of people worldwide.

The major new initiatives for the year will be a summer school in the USA, the introduction of distance learning courses, starting the digitisation of the RSN Collection and Archive and introducing a schools initiative. Underpinning a number of these areas will be the major IT project, which began at the end of 2016-17 and is aimed at transforming some of the RSN's core working practices. This is a major investment by the organisation, so we have appointed a specific project manager to bring it to fruition in a timely manner. Only when completed will we then look to start phase two which will include the RSN Stitch Bank and the digitisation of the Collection and Archive. We are very grateful to all the RSN supporters who have given donations to this project and we will look forward to starting this next year.

Also linked to IT, the RSN is very aware of the introduction of the new data protection rules coming in during 2018 and is working hard to obtain consent for correspondence with all our customers, Friends, donors, newsletter recipients and others so that we can continue to keep them informed of our work and opportunities. If you are reading this, please ensure we have your consent for future communications so we may send you the report next year.

The RSN has been visiting the USA twice a year for the last nine years but the focus has primarily been on Certificate and Diploma courses with only a small number of short courses. There have been many calls for more classes, so for 2018 the RSN is aiming to take 10 tutors for two one-week Summer schools in Kentucky in July. Initial interest has been high and we are looking forward to two great weeks.

However, one summer school is not going to appease the many people in the UK and internationally who bemoan the fact that we are not located nearer to them. This year we are looking to launch a new Distance Learning programme as a partnership initiative that will introduce RSN stitch to people anywhere in the world. This has been a long-time desire and over time we hope it will represent the full breadth of RSN techniques.

With the growth in tutor numbers as a result of the Future Tutor programme we also hope to offer classes in new locations around the UK within the next 18 months, following the model we have established for Ireland of a week of varied short classes in one place. We are also planning our first initiative for schools in 2018, thanks to support from the Worshipful Company of Girdlers, as we endeavour to create a new pipeline of interested students for our degree programme and also offer stitch as a way to help relieve stress.

Over the next year, we are going to see a number of transformations in our working practices to deliver a better service to customers and I thank staff for their willingness to embrace the changes.



Dr Susan Kay-Williams

Chief Executive

Report of the Council Year to 31 August 2017

The Members of the Council (as trustees), who are also the directors for the purposes of company law, present their annual report together with the audited consolidated financial statements of The Royal School of Needlework for the year ended 31 August 2017. The report has been prepared in accordance with the Charities Act 2011 and is also the report of the directors for the purposes of the Companies Act 2006. The reference and administrative information set out on page 1 and the Chairman's and Chief Executive's Introductions set out on pages 2 to 4 also form part of the report.

The financial statements have been prepared in accordance with the accounting policies on pages 25 to 29 of the attached financial statements, and comply with the charitable company's memorandum and articles of association, the Charities Act 2011 and Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102), effective for accounting periods commencing on or after 1 January 2015.

ACTIVITIES AND ACHIEVEMENTS

The Royal School of Needlework (RSN) exists to offer practical education in the art and techniques of hand embroidery and to create, collect, conserve, interpret and display items of hand embroidery. The income and property of the charity are to be applied solely towards the promotion of its objects.

Teaching

Teaching the art and techniques of hand embroidery is at the heart of what we do, through four programme areas. The RSN also has regard to section 17 of the Charities Act 2011 requiring charities to offer public benefit and the RSN's commitment to this is highlighted in the activities outlined below which this year have included participation, exhibitions and special events. In particular, we endeavour to make teaching by the RSN available to as many people as possible, taking people from beginners to advanced, we also offer taster courses for people to 'have a go' and we offer courses in various locations to try to offer an RSN opportunity to more people.

Future Tutors

To teach for the RSN one must be taught by the RSN in order to appreciate and pass on the hallmarks of how we teach and the RSN's technical approach to stitch. Maintaining and developing the number of teachers we have is absolutely vital to our plans for development. We can only meet the need to teach more often in more locations if we have more tutors.

This year there were nine Future Tutor students across the three years including two transitional students who had completed the Certificate and some of the Diploma units before starting on the Future Tutor programme, so would be able to complete the course in two years. Four students graduated at the end of the year and they have already started teaching for the RSN in the UK and USA.

ACTIVITIES AND ACHIEVEMENTS (continued)

Future Tutors (continued)

The financial challenge of the Future Tutor programme is that, as a practical course which is RSN-specific, students are not eligible for any loans or grants, so the RSN has taken the approach of raising funds to support the programme, enabling fees to be reduced and attracting bursaries to support the individual student's needs. This year more than £62,000 (2016: £42,000) was raised for the course costs including £13,300 towards student bursaries and prizes.

The long-term financial goal is to increase the RSN endowment to support the ongoing Future Tutor programme. As part of our commitment to public benefit, the Future Tutors led taster courses at a number of shows and exhibitions, led workshops for students at the V&A and participated in the new Family Days that the RSN has introduced as part of the Talk and Tour programme during half terms. They also demonstrated stitching as part of the Studio's work with pop artist Philip Colbert for London Craft Week.

Work by the Future Tutors was exhibited at the end of year show and as part of the 30th anniversary exhibition *Embroidered at the Palace*.

Degree

The RSN Degree in hand embroidery is the only degree focusing solely on hand embroidery in the UK and probably within Europe. The programme teaches core stitch techniques but then challenges students to take the stitch in new, creative directions based on their work in art and design, research and experimentation.

The Degree is subject to the same quality assurance standards as all other higher education providers. Having been commended for the quality and breadth of its course, especially in relation to the opportunities available to students in 2016, after submission of the appropriate evidence for 2017 the Quality Assurance Agency for Higher Education determined that they did not need to make an annual inspection this year.

Continuing the tradition of taking all external opportunities, second and third year degree students began the year by demonstrating hand embroidery as part of the Burberry Makers' House event and also demonstrated at the Luxury Made event at Olympia, they also assisted several designers with preparations for Fashion Weeks in September and January including Hussain Chalayan, Jasper Conran and Alexander McQueen. Two students also worked on longer projects with Zandra Rhodes.

All three years worked on projects for public exhibition. First years participated in *The Dark Self* an installation of 1001 embroidered pillowcases initiated by artist Susan Aldworth who wanted to explore aspects of the brain during sleep. All the first years contributed making their own interpretations to fit the brief and the pieces were all on exhibition in York.

The second year students' live project this year was called *Off the Surface* and asked students to explore works in the RSN Textile Collection including pieces of Chinese embroidery, purses and other accessories and lace handkerchiefs and make a response to what they saw. The created pieces and the original inspiration were then exhibited at the Devon Guild of Craftsmen. This free exhibition attracted over 20,000 visitors.

ACTIVITIES AND ACHIEVEMENTS (continued)

Degree (continued)

Third year work was exhibited at the RSN for the end of year show and both second and third year work was included in the *Embroidered at the Palace* exhibition.

This was the first year of the three-year degree programme operating in full, across all years and we also grew our first year numbers with 19 in the first year, 14 in the second year and 10 in the third year. All students passed, with four of the third years achieving first class degrees.

The degree continues to seek new opportunities to market itself, often through its activities such as exhibitions and participation in special events. The Chief Executive and Course Leader were both invited to speak at events linked to quality and standards to showcase the RSN degree programme.

Certificate and Diploma

The Certificate and Diploma in technical hand embroidery are the RSN's part time courses for people who wish to gain practical skills in hand embroidery to a high technical level. This year we taught it at Hampton Court, Bristol, Durham, Rugby, Glasgow, in Williamsburg USA and three centres in Japan. All students other than those in Japan have been able to use the new Bookeo reservation system, which has helped the financial administration. However, the anticipated growth in numbers, especially at Hampton Court did not occur and a number of activities had to be put in place, including an Open Day in Bristol and starting a rolling programme of Open Days at Hampton Court to encourage more people to start the course. Early signs are that these are showing results with particular growth in Bristol.

The summer intensive programme at Hampton Court had very good numbers and this year we also ran additional days of tuition for regular students during July, which proved popular, but overall, income was down against budget by £52k and £15k below the previous year. After an analysis of the figures, a number of issues were identified and these are being addressed. A new Education Manager is now in post and will be working on a range of promotional routes with Marketing. During 2016-17, we taught a total of 365 students: 299 attended Certificate classes and 132 attended Diploma classes including 66 who transitioned from Certificate to Diploma during the year.

Short courses

Short courses are mostly one and two day courses at weekends for leisure stitchers. The courses are for all levels, beginning with introductory classes through to advanced techniques. They take place at Hampton Court and in Bristol, Glasgow, Rugby and Exeter on a regular basis, as well as being part of our North American offering and we made a second visit to Dublin to offer a weeklong programme.

The early part of the year showed a disappointing take up of places and this was put down to too much choice. The September to December programme had already been advertised so it was more difficult to retrench but the January to August programme was reduced before launch, with one exception, a short-term focus on Opus Anglicanum to coincide with the exhibition that was held at the V&A, as it is only RSN-trained tutors who can deliver such

ACTIVITIES AND ACHIEVEMENTS (continued)

Short Courses (continued)

courses. As a result of these actions, figures for the second half of the year were better than the first. Altogether short courses brought in £14k more than the previous year, although down by £21k against budget. In total 1,950 places were sold on short courses (up from 1,877).

One area that has grown over the year is private lessons where we continue to increase bookings, for both on and off-site lessons on specific projects.

Exhibitions, events and lectures off site

The RSN exhibition programme is a key part of its public benefit. This year as well as the aforementioned Degree exhibitions, the main exhibition at Hampton Court palace was called *Stories in Stitch* featuring work by current and recent students as well as six pieces of 17th century embroidery from the RSN Collection. Due to popularity, we extended this exhibition by five months and introduced Family events at half term as many of these pieces had a children's story theme from the Owl and the Pussycat to Humpty Dumpty and Alice in Wonderland.

In addition, for the 30th anniversary of the RSN being resident at Hampton Court Palace, the Palace Director made available to the RSN a series of rooms which allowed us to show the work of current students from all courses (Certificate, Diploma, Future Tutor and Degree), along with a couple of large pieces the RSN Studio and Apprentices had made in the last 30 years and a photographic montage of a wider range of work from the period. This was open to visitors to the Palace and attracted over 5,000 people. We were very grateful to Hampton Court for allowing us the space and to our many stitchers and volunteers who manned the event and happily chatted to visitors.

In August, the RSN loaned a dozen pieces to Mr X Stitch for an exhibition contrasting modern and historic cross-stitch. The exhibition was held in Farnham and he has had a request to repeat it elsewhere. The RSN also enabled its rooms to be used for the filming of a programme featuring Mr X Stitch and some of the RSN's male stitchers for BBC 4 to be shown next year.

The Chief Executive has lectured extensively for organisations from the V&A and Devon Guild of Craftsmen to the Belfast Loose Thread Group, as well as local groups of the WI, Quilters' Guild, The Arts Society (formerly NADFAS) and the Embroiderers' Guild. In particular, this year these included a lecture on the role of colour in the V&A exhibition on *Opus Anglicanum*. Degree Senior Lecturer Dr Clare Rose has also been a regular lecturer for the V&A.

Specifically, this year we have introduced the Tour and Taster programme, which offers people the opportunity to see the current RSN exhibition, and then to create a motif designed by one of our tutors based on something in the exhibition. These have been very successful and RSN tutors have enjoyed working up new projects based on the exhibitions.

ACTIVITIES AND ACHIEVEMENTS (continued)

Exhibitions, events and lectures off site (continued)

Finally, to celebrate the 30th anniversary of being at Hampton Court Palace we held a special Tea Party; the 180 tickets sold out in record time and people came from across the UK to be part of it. In a show of hands, we had people whose association with the RSN went back just a couple of years to two ladies who were members of staff in the 1950s and one from the 1940s. It was a very jolly afternoon and concluded with everyone being given a book to celebrate some of the major projects and developments of the RSN in this period.

RSN Studio

The role of the RSN Studio is to undertake commissions of both new embroidery and conservation and restoration of historic textiles for a range of clients. This year the predominance was on new work, completing a series of altar frontals for a private oratory and commencing work on a set of new vestments for Buckfast Abbey.

Conservation work predominantly focused on ecclesiastical pieces, but there was also a steady demand for repairs to wedding veils. The major new initiative this year was a partnership with pop artist Philip Colbert for London Craft Week. Philip designed a series of pop-art nudes and the RSN Studio with Future Tutors realised them in appliqué and stitch. This included for one week moving the entire team to Philip Colbert's Studio in Shoreditch where members of the public could come and see the work in progress.

It is also while in the Studio that the Future Tutors learn one of the principal hallmarks of the RSN and that is to work collectively on a piece and yet ensure it looks like the work of one person. Each year the Clothworkers' Company commissions a new kneeler for their church, St Olave's, and this is begun with a competition for the first year Future Tutors responding to a brief that changes each year. The winning design is made up under the guidance of the Studio team, by all the Future Tutors together, so they learn how to match tension and stitch length.

RSN Collection/Archive

The RSN Collection of textiles and Archive of documents on the history of the RSN are both valuable resources for students, tutors and researchers. We endeavour to make these available to the public through the exhibitions and also welcome individual researchers and students if they can identify what it is they want to examine.

During the year, we have welcomed researchers investigating a wide range of topics including the Pelican in Piety motif, our original Vice-President Lady Marion Alford and the Black Prince's Jupon, which the RSN conserved and made a replica of for Canterbury Cathedral in the 1950s. In terms of using the Collection, we included pieces from it in our display for Burberry at Makers' House and welcomed a number of companies to look at both designs and Collection pieces during the year for creative inspiration. The Course Leader and Curator from the Devon Guild of Craftsmen curated a selection of pieces from the Collection for the Degree second year live project.

ACTIVITIES AND ACHIEVEMENTS (continued)

RSN Collection/Archive (continued)

The contextual studies lecturer also ran four Study Days for the public looking in more detail at pieces in the Collection, especially relating to lingerie and fashion of different periods as a prelude to the new exhibition. We also made some places available to Future Tutors.

Donations also continue to come into the Collection and this year these have included a set of embroideries made by Muriel Lee when she was an RSN student in the 1920s and a collection of ecclesiastical samplers given to the RSN by St Mark's Regent's Park which had come from All Saints' Convent and included several pieces which were almost certainly made by nuns who had been students at the RSN in the early 20th century.

Friends

The Friends of the RSN are people who want to support the RSN. They make an annual payment or, by choice can become a Life Friend or a Special Supporter and pay more for their Friends' membership as a donation to the organisation. The Friends have a vital role as ambassadors and advocates for the RSN and many have also been donors and this year, avid attendees at the 30th anniversary tea party and *Embroidered at the Palace* exhibition. We are very grateful for their support.

There were just under 1,000 Friends at the year-end.

Media

A key part of the RSN's strategic outreach is to inform more people about its work and to this end the RSN has embarked on reaching new audiences through a range of publications including many of the new titles now devoted to craft and sewing, and publications local to Hampton Court and other centres where we teach. We also endeavour to feature in newspapers due to their wider reach. This year this was achieved when we were contacted by *The Telegraph* online, wanting to pursue a story about gender and sewing and lack of basic skills, but the story was then also reported by one of the red tops giving us an even wider reach.

We have also been pursuing more social media outreach to show examples of work through Instagram and reach international supporters through Facebook and Twitter. This is becoming an increasingly important part of our media coverage.

Retail

We offer both a physical shop at Hampton Court Palace and an online shop for a range of specialist and supporting products. We offer everything from slate frames and trestles to small kits and greetings cards featuring the work of our students. This year as part of celebrating our 30 years at Hampton Court Palace, we introduced a book on the RSN's work over that time period and a series of cards featuring images from the archive. The shop ended the year with higher sales than last year but a slightly lower sales margin due to increased costs.

For 2017-18, we aim to maintain this sales level, with a view to significantly enhancing the online offering once we have our new retail system in place.

ACTIVITIES AND ACHIEVEMENTS (continued)

Fundraising

The RSN is not in receipt of any statutory funding and has to earn or raise all its income. We have two main strands for our fundraising: our core programme and new projects. In the area of core programme, we raise funds to support student bursaries on both our Degree and Future Tutor programmes. In addition, because students on the Future Tutor programme are not eligible for any government loans we raise funds to support the course as a whole, enabling us to reduce the course costs to participants. It is vital to have this support for this important course, which is at the heart of keeping hand embroidery alive for future generations.

This year we have also focused on raising funds for new initiatives, in particular the RSN Stitch Bank and our wish to digitise the RSN Textile Collection and large swathes of the RSN Archive. These are major initiatives but with the help of Charitable Trusts and RSN supporters, we hope to begin to start work on the digitisation in 2018.

The RSN remains grateful to all those organisations which support the RSN, especially City Livery companies including Broderers, Clothworkers, Dyers, Girdlers, Gold and Silver Wyre Drawers, Haberdashers, Needlemakers, a number of Charitable Trusts and those who wish to remain anonymous.

Review of overall performance

Without doubt, this was a challenging year, especially in the first half, with significant impacts on Certificate, Diploma, Short Courses and Retail and the absence of a significant legacy. However, with the commitment of the staff team, a number of areas came together to help turn around this position by the end of the year. The tea party and anniversary exhibition had a positive impact on retail, late bookers stimulated figures for the short courses and donations to the digitisation campaign all helped. As a result, the RSN achieved an overall income of £1.9m, our highest without a large legacy.

FUTURE DEVELOPMENTS

The Year Ahead

As outlined in the Chief Executive's overview the year ahead will focus around the planned IT transformation. This is a significant piece of work but the required outcome is a step change in the way the RSN works, making the organisation more efficient and in turn enabling us to focus more on customer care.

In the RSN's core areas we will be consolidating the Certificate and Diploma attendances and Future Tutor applications through Open Days; we will be reviewing the number of Short Courses to ensure we are meeting needs and achieving critical mass and we will be looking for new avenues to promote the work of the Studio to show the variety of areas in which the Studio could operate such as interiors, decorative arts, bespoke gifts and fashion.

ACTIVITIES AND ACHIEVEMENTS (continued)

The Year Ahead (continued)

In addition, there are a series of new initiatives, which we also hope to deliver in the year, particularly pertaining to offering the opportunity for new people to engage with the RSN. These initiatives include a summer school in the USA; a distance learning opportunity through a third party and a schools project to bring the RSN to a new generation.

FINANCIAL REVIEW

Financial report for the year

The consolidated statement of financial activities for the year shows a net surplus (before investment gains) of £9,604 (2015/16 surplus of £4,362).

The overall income for the year 2016/17 amounted to £1,917,802 (2015/16: £1,758,317), a year on year increase of 9%. Increases were experienced in all areas of activity, with the exception of donations and legacies of £239,499 (2015/16: £241,869), where there was a small decrease due to lower legacies. Donations and legacies remain an extremely important source of income, particularly for the Degree and Future Tutor programmes, neither of which receives any government funding, and for all new initiatives.

The trading subsidiary income of £384,266 (2015/16: £340,449) increased by 13% mainly due to the level of activity in the RSN Studio which benefitted from a large commission which was completed by the end of the financial year.

Income from charitable School activities amounted to £1,126,852 (2015/16: £1,010,413) a 12% increase over the previous year due to increased student numbers particularly on the Degree programme and also on short courses. Investment income of £167,185 (2015/16: £165,586) also increased marginally.

The restricted fund income of £162,638 (2016: £190,610) consisted of resources earmarked for the Degree and Future Tutor programmes and the RSN Stitch Bank and Collection and Archive Digitisation Campaigns. The reduction compared with last year is mainly due to the lower level of legacy income received. Restricted expenditure of £198,257 (2016: £170,072) was incurred against the Degree and Future Tutor programmes, for the RSN Stitch Bank project which commenced during the year and also the ongoing depreciation on the capital costs of the set-up of the new classrooms at Hampton Court Palace in 2015.

Total expenditure for the year of £1,908,198 was 9% more than the previous year (2015/16: £1,753,955) and particularly reflects the increased staffing and other resources required to yield the additional income from school and trading activities in the current year.

Net realised and unrealised gains on investments for the year amounted to £393,933 (2015/16: £406,717) reflecting the continued rise in the investment market since the EU referendum last year. At the balance sheet date, net assets totalled £5,088,599 (2015: £4,685,042) of which £2,178,186 (2016: £1,940,936) are unrestricted.

FINANCIAL REVIEW (continued)

Financial report for the year (continued)

The Royal School of Needlework has an investment of £100 in the share capital of RSN Enterprises Limited, a wholly owned company which is incorporated in England. The net trading income of the company for the year amounted to £52,066 (2016: £35,452). This will be donated to the School under the Gift Aid arrangements.

Reserves policy and financial position

The Council has examined the requirements for free reserves, i.e. those unrestricted funds not invested in tangible fixed assets, designated for specific purposes or otherwise committed. The Council considers that, given the nature of the charity's work and the discretionary nature of a significant proportion of income, the level of free reserves should remain unchanged from last year at up to five months' total expenditure at any one time. Based upon budgeted expenditure levels for 2017/18, the maximum expenditure for five consecutive months would be in the region of £960,000. The Council is of the opinion that this provides sufficient flexibility to cover temporary shortfalls in incoming resources due to timing differences in income flows, adequate working capital to cover core costs and will allow the charity to cope with and respond to unforeseen emergencies whilst specific action plans are implemented.

The charity has total reserves of £5,088,599 (2016: £4,685,042). This includes endowment funds and restricted funds of £2,440,556 (2016: £2,257,587) and £465,067 (2016: £481,749) respectively and designated funds of £800,000 (2016: £800,000). After deducting funds represented by tangible fixed assets and shareholders' funds, this leaves free reserves at 31 August 2017 of £1,355,142 (2016: £1,111,097). The excess of free reserves compared with the target level of £960,000 arose due to unrealised investment gains following the rise in the stock market since the EU referendum last year. Given the potential for uncertainty in the stock market over the next two years as EU exit negotiations continue, the Council is of the opinion that the level of free reserves held is prudent in the current circumstances.

At a meeting on 10 August 2017, the Council agreed that £800,000 should be formally designated towards the planned developments within the strategic plan. This is the same total level as the previous designation as the extent of future strategic projects planned remains unchanged; however, the relative allocation of funds between projects has been adjusted to reflect the current forecast requirements. The Council will review this designation on an ongoing basis. A number of the designated projects have now commenced including the RSN IT transformation project, which will be ongoing during 2017/18.

Investment policy

Under the Memorandum and Articles of Association, The Royal School of Needlework has the power to make any investments, which the Council sees fit. The Finance and Investment Committee keeps a close eye on investments and returns to ensure maximum benefit for the RSN and meetings are held regularly with the investment managers to ensure that the balance of the portfolio remains appropriate particularly given political uncertainties and the ongoing potential for market volatility.

FINANCIAL REVIEW (continued)

Investment policy (continued)

The tenor of the investment policy remains to maintain the real value of the RSN funds through continued growth of the asset base, seeking to achieve this with an appropriate balance between sustained cash flow and capital growth, to generate over the long term, defined as a period of not less than five years, a total return on capital invested that reflects the risk appetite.

During the year, the Council also considered and reaffirmed its risk appetite for the investments, which has been mandated as medium.

STRUCTURE, GOVERNANCE AND MANAGEMENT

Constitution

The Royal School of Needlework was founded in 1872 and incorporated in England, on 16 April 1878 as a company limited by shares, the word 'limited' being omitted by licence of the then Board of Trade. The School is also registered as a charity with the Charity Commission, under the number 312774.

Council and Trustees

The governing body of the RSN is the Council. This comprises the Chairman, Honorary Treasurer and up to 12 ordinary members.

Members of the Council (who are also trustees of The Royal School of Needlework for the purposes of charity law) who served during the year and up to the date of this report were:

Council members (Directors)	Appointed / Retired
Mr Andrew Palmer (Chairman)*	Appointed Chairman 28 February 2017
Mrs Elizabeth Braakenburg Dyce	
Ms Nicola Clarke*	
Mrs Caroline De Guitaut	
Mr David Elford*	Resigned 19 October 2016
Mrs Morgan Fowles	
Miss Samantha Hoe-Richardson (Honorary Treasurer)*	Appointed Hon Treasurer 16 November 2017
Ms Deborah Lamb	
Prof John Miles	Appointed 5 October 2016
Mr Nicholas Rochez (Chairman)*	Retired 28 February 2017
Mr Christopher Stooke*	
Mrs Sharan Wicks	
Mrs Stephanie Wright*	Appointed 11 April 2017

* indicates members of the Finance and Investment Committee which met four times during the year under the chairmanship of the Honorary Treasurer, Mr Andrew Palmer. Miss Samantha Hoe-Richardson was appointed to the role of Honorary Treasurer on 16 November 2017.

STRUCTURE, GOVERNANCE AND MANAGEMENT (continued)

Council and Trustees (continued)

All Council Members at 31 August 2017 held one £10 share (2016: one £10 share) in the capital of the charitable company.

In addition to the Council there is one committee which reports to the Council:

The Finance and Investment Committee, which meets four times a year and ensures that the finances of the RSN are well managed and accurately reported, and that the investments are handled in accordance with the agreed risk appetite.

Appointment to Council

Council members serve a term of three years and may serve a second term of three years before retirement.

Approximately biennially the Council members undertake a skills analysis, the Chairman and the Chief Executive review the skills available, the likely retirement dates of Council members and the future needs of the charity in order to start searching for new potential Council members.

During 2016-17 the Chairman Mr Nicholas Rochez came to the end of his term of office (retired 28 February 2017) having served the RSN for nine years, four years as a Council member and five as Chairman. He was succeeded as Chairman by Mr Andrew Palmer who has served the RSN as a Council member for five years, including four as Honorary Treasurer. Miss Samantha Hoe-Richardson in turn succeeded him in the role of Honorary Treasurer on 16 November 2017.

New Council members were sought through advertising on the RSN website, comparing skill sets with areas of need, and then potential candidates were interviewed by the Chairman and Chief Executive.

This resulted in two new members of Council joining during the year: Professor John Miles who was appointed on 5 October 2016 and Mrs Stephanie Wright who was appointed on 11 April 2017.

Council Members' Induction and Training

On appointment, Council members are provided with the Charity Commission publication about trustees' roles and responsibilities, are invited to come and spend a day with senior managers and their teams learning about the work of each team, and are provided with copies of the annual report, strategic plan and campaign presentation. Council members have also been provided with Charity Commission guidance on the new fundraising regulations. Council members are also informed of training courses run by our advisors, which they may attend.

STRUCTURE, GOVERNANCE AND MANAGEMENT (continued)

Statement of the Council's responsibilities

The Council Members (who are also directors of The Royal School of Needlework for the purposes of company law) are responsible for preparing the report of the Council and financial statements in accordance with applicable law and United Kingdom Accounting Standards (UK Generally Accepted Accounting Practice).

Company law requires the Council to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the charitable company and the group and of the income and expenditure of the group for that period. In preparing these financial statements, the Council is required to:

- ◆ select suitable accounting policies and then apply them consistently;
- ◆ observe the methods and principles in Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102);
- ◆ make judgements and estimates that are reasonable and prudent;
- ◆ state whether applicable United Kingdom 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 charity will continue in operation.

The Council is responsible for keeping adequate accounting records that 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 and the Charities Act 2011. They are also responsible for safeguarding the assets of the charitable company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Each of the Council Members confirms that:

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

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

STRUCTURE, GOVERNANCE AND MANAGEMENT (continued)

Statement of the Council's responsibilities (continued)

The Council is responsible for the maintenance and integrity of the corporate and financial information included on the charitable company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Organisational Structure and Key Management

The key management personnel of the RSN in charge of directing and controlling, running and operating the charity comprise the Council and the Chief Executive, Dr Susan Kay-Williams. The Chief Executive is supported in day-to-day operations by a small senior management team and other staff. The RSN is a small organisation with at most only three levels of hierarchy but in practice, much of it operates at a more hands-on level.

The salary of the Chief Executive is set by the Council. The salaries of all staff are considered annually by the Finance and Investment Committee and approved by the Council.

As at 31 August 2017, the RSN employed ten full time and twelve part-time management and administrative staff and core teams of eight part time stitchers in the studio and eighteen part time tutors. In addition, there are around twenty volunteers who assist with the library, studio Talk and Tours, marketing and data entry.

Risk management

The Council and senior managers have reviewed the principal financial, reputational, operational and governance risks that might impact on the organisation during the year and updated the risk register accordingly. The review enables the RSN to reflect upon the impact of both internal and external changes and the longer-term impact they may have, ensuring that mitigation is updated to respond to the changes. In the nature of a changing world, while known risks can be mitigated there will always be unanticipated events.

The Finance and Investment Committee continues to take the lead in reviewing the financial risks, aiming to minimise and mitigate any that appear or will potentially impact the charity and that are within its power to affect.

The Council has reviewed the RSN's internal financial controls and is satisfied that these are appropriate in minimising any risks to its funds.

The top three risks that could have a negative impact on achieving the RSN's strategic plan have been identified as:

The challenge of achieving budgeted income especially in the area of the Certificate and Diploma. This is being mitigated by stronger marketing of the programme including open days and other activities.

The impact of system enhancements impacting on staff efficiency and morale. All staff are pleased that the IT upgrade has begun but day-to day issues of implementation can create unexpected difficulties. Working through the project manager, we will aim to minimise

STRUCTURE, GOVERNANCE AND MANAGEMENT (continued)

Risk management (continued)

disruption as much as possible and endeavour to pre-brief staff on major changes and key dates. Staff have also been actively involved in contributing to specifications and requirements.

The loss of key staff. We endeavour to mitigate this by training staff to step into roles, and bringing in others from different RSN areas, as well as encouraging staff to return after maternity leave and responding quickly to fill roles with temporary staff to ensure customer service is maintained. As a small team, there is very little 'slack' in the system. When someone is ill, especially a tutor, there can be a knock-on effect and the Council is aware of the engagement of all staff in working to achieve the agreed programme even where resources are constrained.

Trading subsidiary

The School has a wholly owned trading subsidiary RSN Enterprises Limited, a company incorporated in England with a share capital of £100. The principal activity of the company is that of undertaking the commercial and retail activities of The Royal School of Needlework. The company comprises the RSN Studio, which undertakes commissions for individuals and public bodies and a retail outlet within the premises of The Royal School of Needlework. The retail outlet also offers products for sale via its website.

All taxable profits of the trading subsidiary are donated to the School under the Gift Aid scheme. During the year the company made a net profit of £52,066 (2015/16 £35,452).

This report is approved by the Council on 19 February 2018 and signed on its behalf by:



Andrew Palmer
Chairman



Susan Kay-Williams
Chief Executive

Independent auditor's report to the members of The Royal School of Needlework

Opinion

We have audited the financial statements of The Royal School of Needlework (the 'parent charitable company') for the year ended 31 August 2017 which comprise the consolidated statement of financial activities, the consolidated and parent charitable company's balance sheets, the consolidated statement of cash flows, the principal accounting policies and the notes to the financial statements. 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).

This report is made solely to the parent charitable company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and the charity's Council members, as a body, in accordance with Section 144 of the Charities Act 2011 and with regulations made under Section 154 of that Act. Our audit work has been undertaken so that we might state to the parent charitable company's members and the parent charitable company's Council members 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 parent charitable company, the parent charitable company's members as a body and the parent charitable company's Council members, as a body, for our audit work, for this report, or for the opinions we have formed.

In our opinion, the financial statements:

- ♦ give a true and fair view of the state of the group and parent charitable company's affairs as at 31 August 2017 and of the group's 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.

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 parent charitable company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other 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 opinion.

Conclusions relating to going concern

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

Independent auditor's report Year to 31 August 2017

Conclusions relating to going concern (continued)

- ◆ the Council members' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- ◆ the Council members have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the parent 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 Council members 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.

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 report of the Council for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- ◆ the report of the Council 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 group and parent charitable company and their environment obtained in the course of the audit, we have not identified material misstatements in the report of the Council.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- ◆ adequate accounting records have not been kept by the parent charitable company or returns adequate for our audit have not been received from branches not visited by us; or

Independent auditor's report Year to 31 August 2017

Matters on which we are required to report by exception (continued)

- ◆ the charitable parent company financial statements are not in agreement with the accounting records and returns; or
- ◆ certain disclosures of Council members' remuneration specified by law are not made; or
- ◆ we have not received all the information and explanations we require for our audit; or
- ◆ the Council members were not entitled to take advantage of the small companies' exemption from the requirement to prepare a strategic report.

Responsibilities of Council members

As explained more fully in the statement of the Council's responsibilities, the Council members 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 Council members 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 Council members are responsible for assessing the group and parent 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 Council members either intend to liquidate the parent 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

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.



Katharine Patel, Senior Statutory Auditor
for and on behalf of Buzzacott LLP, Statutory Auditor
130 Wood Street
London
EC2V 6DL

2 March 2018

Consolidated statement of financial activities Year ended 31 August 2017

Income and expenditure	Notes	Unrestricted funds £	Restricted funds £	Endowment funds £	2017 Total funds £	2016 Total funds £
Income from:						
Donations and legacies	1	76,861	162,638	—	239,499	241,869
Investment income	2	167,185	—	—	167,185	165,586
Income from trading activities	3	384,266	—	—	384,266	340,449
Charitable activities						
. School activities	4	1,126,852	—	—	1,126,852	1,010,413
Total income		1,755,164	162,638	—	1,917,802	1,758,317
Expenditure on:						
Raising funds	5	427,680	26,478	—	454,158	413,825
Charitable activities						
. Costs of school activities	6	1,275,211	171,779	7,050	1,454,040	1,340,130
Total expenditure		1,702,891	198,257	7,050	1,908,198	1,753,955
Net income (expenditure) before investment gains and losses	8	52,273	(35,619)	(7,050)	9,604	4,362
Realised losses on investments	11	(10,580)	(1,083)	(10,868)	(22,531)	(56,784)
Unrealised gains on investments	11	195,557	20,020	200,887	416,464	463,501
Net income and net movement in funds		237,250	(16,682)	182,969	403,537	411,079
Reconciliation of funds:						
Fund balances brought forward at 1 September 2016		1,940,936	481,749	2,257,587	4,680,272	4,269,193
Fund balances carried forward at 31 August 2017		2,178,186	465,067	2,440,556	5,083,809	4,680,272

Balance sheets 31 August 2017

	Notes	Group		Charity	
		2017 £	2016 £	2017 £	2016 £
Fixed assets					
Tangible assets	9	80,356	111,358	80,356	111,358
Investments	11	4,928,585	4,570,262	4,928,685	4,570,362
		<u>5,008,941</u>	<u>4,681,620</u>	<u>5,009,041</u>	<u>4,681,720</u>
Current assets					
Stocks	12	58,276	53,388	21,565	19,829
Debtors	13	98,309	110,985	100,169	149,115
Cash at bank and in hand		365,689	296,084	325,442	247,997
		<u>522,274</u>	<u>460,457</u>	<u>447,176</u>	<u>416,941</u>
Creditors: amounts falling due within one year	14	<u>(442,616)</u>	<u>(457,035)</u>	<u>(367,618)</u>	<u>(413,619)</u>
Net current assets		<u>79,658</u>	<u>3,422</u>	<u>79,558</u>	<u>3,322</u>
Total net assets		<u>5,088,599</u>	<u>4,685,042</u>	<u>5,088,599</u>	<u>4,685,042</u>
Represented by:					
Capital and reserves					
Called up share capital	15	290	290	290	290
Capital redemption reserve	16	4,500	4,480	4,500	4,480
		<u>4,790</u>	<u>4,770</u>	<u>4,790</u>	<u>4,770</u>
The funds of the charity:					
Endowment funds	17	2,440,556	2,257,587	2,440,556	2,257,587
Restricted funds	18	465,067	481,749	465,067	481,749
Unrestricted funds:					
General fund		1,378,186	1,140,936	1,378,186	1,140,936
Designated fund	19	800,000	800,000	800,000	800,000
		<u>5,083,809</u>	<u>4,680,272</u>	<u>5,083,809</u>	<u>4,680,272</u>
		<u>5,088,599</u>	<u>4,685,042</u>	<u>5,088,599</u>	<u>4,685,042</u>

Approved by the Council of Members on 19 February 2018 and signed on its behalf by:



Andrew Palmer
Chairman



Christopher Stooke
Council Member

The Royal School of Needlework: Company Registration Number 12192

Consolidated statement of cash flows Year to 31 August 2017

	Notes	2017 £	2016 £
Cash flows from operating activities:			
Net cash used in operating activities	A	(131,663)	(61,907)
Cash flows from investing activities:			
Investment income		167,185	165,586
Purchase of tangible fixed assets		(1,527)	(26,335)
Proceeds from the disposal of investments		292,776	571,538
Purchase of investments		(342,669)	(422,280)
Net cash provided by investing activities		115,765	288,509
Change in cash and cash equivalents in the year		(15,898)	226,602
Cash and cash equivalents at 1 September 2016		436,147	209,545
Cash and cash equivalents at 31 August 2017	B	420,249	436,147

Notes to the statement of cash flows for the year to 31 August 2017

A Reconciliation of net movement in funds to net cash used in operating activities

	2017 £	2016 £
Net movement in funds (as per the statement of financial activities)	403,537	411,079
Adjustments for:		
Depreciation charge	32,529	27,369
Gains on investments	(393,933)	(406,717)
Investment income	(167,185)	(165,586)
Increase in stocks	(4,888)	(6,244)
Decrease in debtors	12,676	1,914
(Decrease) increase in creditors	(14,419)	76,218
Increase in capital redemption reserve	20	60
Net cash used in operating activities	(131,663)	(61,907)

B Analysis of cash and cash equivalents

	2017 £	2016 £
Cash at bank and in hand	365,689	296,084
Cash held by investment managers	54,560	140,063
Total cash and cash equivalents	420,249	436,147

Principal accounting policies Year to 31 August 2017

The principal accounting policies adopted, judgements and key sources of estimation uncertainty in the preparation of the financial statements are laid out below.

Basis of preparation

These financial statements have been prepared for the year to 31 August 2017.

The financial statements have been prepared under the historical cost convention with items recognised at cost or transaction value unless otherwise stated in the relevant accounting policies below or the notes to these financial statements.

The financial statements have been prepared in accordance with Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) (Charities SORP FRS 102), the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) and the Charities Act 2011.

The charity constitutes a public benefit entity as defined by FRS 102.

The financial statements are presented in sterling and are rounded to the nearest pound.

Critical accounting estimates and areas of judgement

Preparation of the financial statements requires the Council Members and management to make certain judgements and estimates.

The items in the financial statements where these judgements and estimates have been made include: stock provisions, estimating the useful economic life of tangible fixed assets and legacy recognition.

Assessment of going concern

The Council has assessed whether the use of the going concern assumption is appropriate in preparing these financial statements. The Council has made this assessment in respect to a period of one year from the date of approval of these financial statements.

The Council has concluded that there are no material uncertainties related to events or conditions that may cast significant doubt on the ability of the charity to continue as a going concern. The Council is of the opinion that the charity will have sufficient resources to meet its liabilities as they fall due. The most significant areas of judgement that affect items in the financial statements are detailed above. With regard to the next accounting period, the year ending 31 August 2018, the most significant areas that affect the carrying value of the assets held by the charity are the level of donations and legacies, the level of investment return and the performance of the investment markets.

Consolidation

Consolidated financial statements ("group financial statements") have been prepared in respect of the charity and its wholly owned subsidiary, RSN Enterprises Limited. The results of RSN Enterprises Limited have been consolidated on a line-by-line basis.

Principal accounting policies Year to 31 August 2017

Consolidation (continued)

A separate statement of financial activities for the charity itself is not presented because the charity has taken advantage of the exemptions afforded by the Charities SORP FRS 102. The company has also taken advantage of the exemption in the Companies Act 2006 Section 408 not to present its own statement of financial activities. Net income of £351,471 (2015/16: £375,627) is attributable to The Royal School of Needlework.

Income recognition

Income is recognised in the period in which the charity has entitlement to the income, the amount of income can be measured reliably and it is probable that the income will be received.

Income comprises donations and legacies, investment income, income from trading activities and school income.

Donations are recognised when the charity has confirmation of both the amount and settlement date. In the event of donations pledged but not received, the amount is accrued when the receipt is considered probable. In the event that a donation is subject to conditions that require a level of performance before the charity is entitled to the funds or where the donation is specifically for a subsequent period, the income is deferred and not recognised until either those conditions are fully met, or the fulfilment of those conditions is wholly within the control of the charity and it is probable that those conditions will be fulfilled in the reporting period.

In accordance with the Charities SORP FRS 102, volunteer time is not recognised.

Legacies are included in the statement of financial activities when the charity is entitled to the legacy, the executors have established that there are sufficient surplus assets in the estate to pay the legacy, and any conditions attached to the legacy are within the control of the charity.

Dividends are recognised once the dividend has been declared and notification has been received of the dividend due.

Interest on funds held on deposit is included when receivable and the amount can be measured reliably by the charity; this is normally upon notification of the interest paid or payable by the bank.

Income from school activities is accounted for on an accruals basis; where fees are received for courses commencing in the following financial period, the income is deferred to the next financial period.

Expenditure recognition

Liabilities are recognised as expenditure as soon as there is a legal or constructive obligation committing the charity to make a payment to a third party, it is probable that a transfer of economic benefits will be required in settlement and the amount of the obligation can be measured reliably.

Principal accounting policies Year to 31 August 2017

Expenditure recognition (continued)

All expenditure is accounted for on an accruals basis. Expenditure comprises direct costs and support costs. All expenses, including support costs, are allocated or apportioned to the applicable expenditure headings. The classification between activities is as follows:

- ◆ Expenditure on raising funds includes all expenditure associated with raising funds for the charity. This includes investment management fees, the costs of the trading subsidiary company and costs incurred in encouraging people and organisations to contribute financially to the charity.
- ◆ Expenditure on charitable activities includes all costs associated with furthering the charitable purposes of the charity through the provision of its charitable activities. Such costs include the direct cost of operating the school and support costs.

Allocation of support and governance costs

Support costs represent indirect charitable expenditure including governance costs. In order to carry out the primary purposes of the charity it is necessary to provide support in the form of personnel development, financial procedures, provision of office services and equipment and a suitable working environment. Governance costs comprise the costs involving the public accountability of the charity (including audit costs) and costs in respect of its compliance with regulation and good practice.

Support costs (which are predominantly staff costs for the Chief Executive and marketing and finance teams) are apportioned between expenditure on raising funds and on charitable activities (which comprises costs of school activities) based on an estimate of the proportion of the time spent on each area. Governance costs are all included within expenditure on charitable activities (costs of school activities).

Tangible fixed assets

Depreciation is provided on all tangible fixed assets at the following annual rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life:

- | | |
|--------------------------|--|
| ◆ Fixtures and fittings | 10% on cost |
| ◆ Office equipment | 20% on cost |
| ◆ Leasehold improvements | 10% on cost or if shorter over the remaining term of the lease |

Fixtures and fittings and office equipment with a value greater than £1,000 are capitalised.

Principal accounting policies Year to 31 August 2017

Heritage assets

The Royal School of Needlework possesses a collection of historic embroidery, the value of which has not been included in the financial statements, as the Council does not believe that the value of ascertaining their market value would be commensurate with the associated cost. Further details are disclosed in note 10 to the financial statements.

Investments

Investments are included on the balance sheet at their market value at the end of the financial period. Investment income is credited to income on an accruals basis, using dates of payment for dividends and daily accruals for interest. Realised and unrealised gains and losses are credited, or debited, to the statement of financial activities in the year in which they arise.

Stocks

Stocks are stated at the lower of cost and net realisable value as follows:

Materials	- At purchase cost on a first-in, first-out basis
Work-in-progress, finished work and goods held for re-sale	- At purchase cost or at cost of direct materials and labour plus attributable overheads based on the normal level of activity

Net realisable value is based on estimated selling price less further costs expected to be incurred to completion and disposal.

Debtors

Debtors are recognised at their settlement amount, less any provision for non-recoverability. Prepayments are valued at the amount prepaid. They have been discounted to the present value of the future cash receipt where such discounting is material.

Cash at bank and in hand

Cash at bank and in hand represents such accounts and instruments that are available on demand or have a maturity of less than three months from the date of acquisition.

Creditors and provisions

Creditors and provisions are recognised when there is an obligation at the balance sheet date as a result of a past event, it is probable that a transfer of economic benefit will be required in settlement, and the amount of the settlement can be estimated reliably. Creditors and provisions are recognised at the amount the charity anticipates it will pay to settle the debt. They have been discounted to the present value of the future cash payment where such discounting is material.

Principal accounting policies Year to 31 August 2017

Fund accounting

The unrestricted general fund comprises those monies which may be used towards meeting the charitable objectives of the charity at the discretion of the Council.

The designated fund comprises monies set aside out of unrestricted funds for future projects or purposes.

The restricted funds are monies raised for, and their use restricted to, a specific purpose, or donations subject to conditions imposed by the donor.

The endowment funds comprise permanent endowments, where the capital is held indefinitely and the income is used for prizes and training for students and expendable endowments, where both the capital and income can be used for student scholarships or the general purposes of the charity.

Notes to the financial statements Year to 31 August 2017

1 Donations and legacies

	Unrestricted funds £	Restricted funds £	Endowment funds £	Total 2017 £	Total 2016 £
Donations	54,861	161,156	—	216,017	199,944
Legacies	22,000	1,482	—	23,482	41,925
2017 Total funds	76,861	162,638	—	239,499	
2016 Total funds	51,259	190,610	—		241,869

2 Investment income

	Unrestricted funds £	Restricted funds £	Endowment funds £	Total 2017 £	Total 2016 £
Bank and deposit interest received	679	—	—	679	745
Income from listed investments	166,506	—	—	166,506	164,841
2017 Total funds	167,185	—	—	167,185	
2016 Total funds	165,586	—	—		165,586

3 Income from trading activities

The Royal School of Needlework has a wholly owned trading subsidiary which is incorporated in England. RSN Enterprises Limited undertakes the retail activities of The Royal School of Needlework. The company will donate its taxable profits to the charity under Gift Aid. A summary of the company's trading results is shown below. Audited financial statements have been filed with the Registrar of Companies.

RSN Enterprises Limited – Statement of comprehensive income

	Total 2017 £	Total 2016 £
Turnover	395,066	351,297
Cost of sales	(272,051)	(250,132)
Gross profit	123,015	101,165
Other operating income	728	1,380
Administrative expenses	(71,677)	(67,093)
Operating profit	52,066	35,452
Gift Aid donation to The Royal School of Needlework	(52,066)	(35,452)
Retained profit for the financial year	—	—

In the year ended 31 August 2017, turnover includes £11,528 (2016: £12,228) of income received by RSN Enterprises Limited from the charity, which is eliminated upon consolidation.

4 Income from school activities

Income from school activities is wholly unrestricted and comprises mainly fees for the Degree programme, Certificate and Diploma programme, Future Tutors and Short Courses.

5 Expenditure on raising funds

	Unrestricted funds £	Restricted funds £	Endowment funds £	Total 2017 £	Total 2016 £
Costs of trading subsidiary	343,728	—	—	343,728	317,225
Investment managers' fees	37,204	—	—	37,204	33,446
Advertising and literature	43,856	—	—	43,856	40,688
Fundraising costs	2,500	13,254	—	15,754	19,722
Travelling & other costs	392	13,224	—	13,616	2,744
2017 Total funds	427,680	26,478	—	454,158	
2016 Total funds	392,525	21,300	—		413,825

6 Costs of school activities

	Unrestricted funds £	Restricted funds £	Endowment funds £	Total 2017 £	Total 2016 £
Staff costs	905,174	69,337	—	974,511	855,775
Other costs	370,037	102,442	7,050	479,529	484,355
2017 Total funds	1,275,211	171,779	7,050	1,454,040	
2016 Total funds	1,180,058	148,772	11,300		1,340,130

7 Staff costs

	2017 £	2016 £
Wages and salaries	1,022,415	902,013
Social security costs	74,501	61,491
Pension costs	69,218	59,051
	1,166,134	1,022,555
Staff costs by function were as follows:		
Cost of school activities	974,511	855,775
Cost of raising funds	191,623	166,780
	1,166,134	1,022,555

The average monthly number of employees during the year was 47 (2016: 44) and on a full time equivalent basis was 24 (2016: 21).

Notes to the financial statements Year to 31 August 2017

7 Staff costs (continued)

The number of employees who earned £60,000 or more (including taxable benefits but excluding employer's pension contributions) during the year was as follows:

	2017	2016
£80,001 - £90,000	1	1

No Council Members received reimbursement of travelling expenses in the year (2016: one Council Member received reimbursement totalling £154).

No remuneration was paid to the Council Members in the year (2016: none).

The key management personnel of the charity in charge of directing and controlling, running and operating the charity on a day-to-day basis comprise the Council and the Chief Executive. The total cost of the remuneration (including taxable benefits, employer's national insurance and pension contributions) of the key management personnel for the year was £105,028 (2016 - £98,151).

8 Net income (expenditure) before investment gains and losses

These are stated after charging:

	2017 £	2016 £
Depreciation	32,529	27,369
Auditor's remuneration		
· Charity audit	7,280	7,000
· Trading subsidiary audit	3,150	3,090
· Other services – charity and trading subsidiary	907	2,688

9 Tangible fixed assets

Group and Charity	Leasehold improve- ments £	Office equipment £	Fixtures and fittings £	Total £
Cost				
At 1 September 2016	150,509	76,320	55,686	282,515
Additions	—	1,527	—	1,527
At 31 August 2017	150,509	77,847	55,686	284,042
Depreciation				
At 1 September 2016	82,275	61,615	27,267	171,157
Charge for year	22,745	6,328	3,456	32,529
At 31 August 2017	105,020	67,943	30,723	203,686
Net book values				
At 31 August 2017	45,489	9,904	24,963	80,356
At 31 August 2016	68,234	14,705	28,419	111,358

10 Heritage assets

The RSN is rich in heritage assets comprising embroidered textiles, designs, company archives, photographs and student pieces. The RSN does not generally have the funds to acquire pieces so most of the collection has been donated. The acquisition policy relates firstly to items that have an RSN connection, then to items of a high standard of work and/or types of work not already included in the collection.

The Collection of textiles comprises objects almost all of which have been donated to the RSN and which are mostly examples of embroidery, with some examples of lace. Whilst there are a few pieces from the 16th century, most date from the 19th and 20th centuries. They comprise many embroidery techniques from the UK and around the world. Also included are a number of pieces worked by the RSN and its students, especially from the original Diploma course, which ran from the late 19th century until 1960, which have been given back to the RSN by the families.

The Archive comprises registers, minutes and other paperwork relating to the management of the RSN, photographs and ephemera from various events. It also contains workbooks of jobs undertaken from the 1940s onwards, some with samples, and drawings. The largest holding is of designs relating to work undertaken in the Studio.

The RSN collection and archive is unique and though it is only minimally catalogued, researchers are given access to specific parts of the archive if it can be identified. The Collection and Archive are made available for student research and for public exhibition.

The RSN also endeavours to offer public access to the Collection through exhibitions and study days both at Hampton Court and elsewhere. Researchers wishing to access the archive can also make appointments but with the caveat that we do not have a resident archivist or curator and most parts of the archive are not catalogued, especially the designs. The most popular requests are whether a family member worked for the RSN (until the registers are digitised this will not be possible to answer), and also in relation to the work the RSN did in therapeutic stitch during the First World War.

Heritage assets have not been capitalised in the financial statements as the Council considers that the significant costs involved in valuing the charity's collection of historic embroidery would outweigh the benefits derived from such an exercise.

11 Investments

	2017 £	2016 £
Listed investments and cash holdings	4,928,585	4,570,262
Group total	4,928,585	4,570,262
Shares in subsidiary undertaking at cost	100	100
Charity total	4,928,685	4,570,362

The charity owns the entire issued share capital of RSN Enterprises Limited which is incorporated in England and Wales.

Notes to the financial statements Year to 31 August 2017

11 Investments (continued)

	Listed investments & cash holdings £
Market value at 1 September 2016	4,430,199
Additions at cost	342,669
Disposal proceeds	(292,776)
Realised losses	(22,531)
Unrealised gains	416,464
Market value at 31 August 2017	4,874,025
Cash held by investment managers	54,560
	<u>4,928,585</u>

Listed investments held at 31 August comprised the following:

	2017 £	2016 £
Fixed interest	728,969	647,832
UK equities	2,000,826	1,876,587
Overseas equities and equity funds	1,161,426	1,078,840
Other listed investments	982,804	826,940
	<u>4,874,025</u>	<u>4,430,199</u>
 Listed investments at cost	 <u>3,417,465</u>	 <u>3,423,503</u>

12 Stocks

	Group		Charity	
	2017 £	2016 £	2017 £	2016 £
Materials	21,565	20,402	21,565	19,829
Finished work and goods held for resale	36,711	32,986	—	—
	<u>58,276</u>	<u>53,388</u>	<u>21,565</u>	<u>19,829</u>

13 Debtors

	Group		Charity	
	2017 £	2016 £	2017 £	2016 £
Trade debtors	20,295	30,767	1,950	22,812
Prepayments and accrued income	78,014	80,218	71,926	71,735
Amounts owed by subsidiary company	—	—	26,293	54,568
	<u>98,309</u>	<u>110,985</u>	<u>100,169</u>	<u>149,115</u>

14 Creditors: amounts falling due within one year

	Group		Charity	
	2017 £	2016 £	2017 £	2016 £
Trade creditors	40,565	84,060	37,217	70,366
Other taxes and social security costs	28,309	20,544	20,809	20,198
Capital expenditure - accruals	—	8,178	—	8,178
Accruals and deferred income	373,742	344,253	309,592	314,877
	442,616	457,035	367,618	413,619

15 Share capital

	Issued, called up and fully paid	
	2017 £	2016 £
Ordinary shares of £10 each	290	290

16 Capital redemption reserve

	2017 £	2016 £
450 Ordinary shares of £10 each (2016 – 448)	4,500	4,480

17 Endowment funds

	At 1 September 2016 £	Expenditure £	Investment gains £	At 31 August 2017 £
Victoria Adams Fund	1,758,312	(6,750)	147,995	1,899,557
General Endowment Fund	475,757	—	40,044	515,801
Hilda Watson Fund	3,121	(100)	263	3,284
Charrington / Broderers Fund	3,121	—	263	3,384
Sheila Fraser Fund	228	(100)	19	147
Wendy Hogg Fund	17,048	(100)	1,435	18,383
	2,257,587	(7,050)	190,019	2,440,556

- The Victoria Adams Fund is an expendable endowment fund for student scholarships and the general purposes of the charity;
- The General Endowment Fund provides for the training of students;
- The Hilda Watson Fund provides prizes for Silk Work;
- The Charrington / Broderers Fund provides prizes for students;
- The Sheila Fraser Fund is an expendable endowment to provide prizes for students;
- The Wendy Hogg Fund is an expendable scholarship / prize fund for students.

18 Restricted funds

	At 1 September 2016 £	Income £	Expenditure £	Investment gains £	At 31 August 2017 £
Janet Churm Fund	224,981	—	(38,637)	18,937	205,281
Degree Building Improvements	34,099	—	(7,417)	—	26,682
Future Tutor Programme	26,336	62,520	(68,106)	—	20,750
Degree Programme	—	39,440	(39,440)	—	—
Campaign HCP New Rooms	62,467	—	(16,790)	—	45,677
Collection & Digitisation Appeal	—	41,856	(15,041)	—	26,815
Other Campaign Funds	107,218	17,340	(12,685)	—	111,873
Other Restricted Legacy	26,648	1,482	(141)	—	27,989
	<u>481,749</u>	<u>162,638</u>	<u>(198,257)</u>	<u>18,937</u>	<u>465,067</u>

- a) The Janet Churm Fund provides support for both the Degree and Future Tutor programmes and was funded by a generous legacy from the estate of the late Mrs Janet Churm.
- b) The Degree Building Improvements Fund was established when the RSN Degree programme commenced. Expenditure relates to the depreciation on leasehold improvements, which were required to set up the Degree rooms at Hampton Court Palace.
- c) The Future Tutor Programme Fund specifically provides bursaries, prizes and day-to-day support for the Future Tutor programme and includes restricted donations and legacies from a number of donors.
- d) The Degree Programme Fund specifically provides bursaries, prizes and day-to-day support for the Degree Programme and includes restricted donations and legacies from a number of donors.
- e) The Campaign HCP New Rooms Fund was established to fund the improvement works and equipment required to set up additional rooms at Hampton Court Palace, which were taken on in 2015 to accommodate expansion. It was funded by donations from a wide number of RSN Friends and other donors. Expenditure includes depreciation on capital works.
- f) The RSN Collection & Digitisation Appeal took place in the summer of 2017 and includes donations from a large number of RSN Friends, supporters and other donors towards the Cataloguing and Digitisation of the RSN Archive and Collection. This project is in the planning stages and it is anticipated that it will get underway in the latter part of 2017/18 once the current IT transformation project is completed.
- g) Other Campaign Funds include donations from a number of donors towards the RSN Stitch Bank, Archive & Collection Digitisation, Distance Learning and General Campaign projects. The RSN Stitch Bank project commenced in 2016/17 and it is anticipated that the Archive & Collection Digitisation projects will commence in the second half of 2017/18.
- h) The Other Restricted Legacy Fund relates to a legacy received in 2016/17, which will provide support for the Future Tutor Programme.

19 Designated funds

	At 1 September 2016 £	New Designations £	Utilised/ released £	At 31 August 2017 £
Futures campaign	800,000	—	—	800,000

The Futures campaign fund comprises monies set aside for various campaign projects including the RSN IT transformation project, which has now commenced and will be ongoing during 2017/18. The level of designated funds at the year-end was unchanged.

20 Analysis of net assets between funds

Group	Share- holders funds £	Restricted funds £	Un- restricted funds £	Endowment funds £	Total 2017 £	Total 2016 £
Tangible fixed assets	—	57,312	23,044	—	80,356	111,358
Investments	—	315,937	2,172,092	2,440,556	4,928,585	4,570,262
Current assets	4,790	146,918	370,566	—	522,274	460,457
Creditors: amounts falling due within one year	—	(55,100)	(387,516)	—	(442,616)	(457,035)
Total net assets	4,790	465,067	2,178,186	2,440,556	5,088,599	4,685,042

Charity	Share- holders funds £	Restricted funds £	Un- restricted funds £	Endowment funds £	Total 2017 £	Total 2016 £
Tangible fixed assets	—	57,312	23,044	—	80,356	111,358
Investments	—	315,937	2,172,192	2,440,556	4,928,685	4,570,362
Current assets	4,790	146,918	295,468	—	447,176	416,941
Creditors: amounts falling due within one year	—	(55,100)	(312,518)	—	(367,618)	(413,619)
Total net assets	4,790	465,067	2,178,186	2,440,556	5,088,599	4,685,042

21 Unrealised gains

The total unrealised gains as at 31 August 2017 constitute a revaluation reserve and comprise unrealised gains on investments of £1,456,560 (2016: £1,006,696).

	2017 £	2016 £
Reconciliation of movements in unrealised gains		
Unrealised gains at 1 September 2016	1,006,696	531,062
Add: in respect of disposals in the year	33,400	12,133
Add: net gains arising on revaluation arising in the year	416,464	463,501
Total unrealised gains at 31 August 2017	1,456,560	1,006,696

22 Operating lease commitments

As at 31 August 2017, the group and charity had the following future minimum payments under non-cancellable operating leases:

	Land and buildings £	Equipment £	2017 £	2016 £
Operating lease payments due:				
within the next year	144,959	6,692	151,651	113,328
between two and five years	142,539	11,861	154,400	293,587
after more than five years	—	—	—	1,030
	<u>287,498</u>	<u>18,553</u>	<u>306,051</u>	<u>407,945</u>

23 Related party transactions

RSN Enterprises Limited has donated its taxable profits of £52,066 for the year ended 31 August 2017 via Gift Aid to the charity (2016: £35,452).

At 31 August 2017, £26,293 is due by RSN Enterprises Limited to the charity (2016: £54,568).

Council Members paid an aggregate of £2,041 (2016: £1,067) for classes and events and £140 (2016: £175) for Friends' subscriptions at standard un-discounted rates.