

RAF ASSOCIATION

REPORT AND FINANCIAL STATEMENTS

Year ended
31 December **2017**





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The Royal Air Forces Association

Reference and administrative details

REGISTERED CHARITY NUMBERS	226686 (England and Wales), SC037673 (Scotland)
PRINCIPAL OFFICE	Atlas House, 41 Wembley Road, Leicester, LE3 1UT
PATRON	Her Majesty The Queen
LIFE VICE-PRESIDENTS	Marshal of the Royal Air Force The Lord Stirrup KG GCB AFC FRAeS FCMI Marshal of the Royal Air Force Sir Keith Williamson GCB AFC Air Chief Marshal Sir Joseph Gilbert KCB CBE LLD (hc) Air Chief Marshal Sir Michael Stear KCB CBE DL MA FRAeS Air Chief Marshal Sir Andrew Pulford GCB CBE ADC Air Marshal Sir John Kemball KCB CBE DL Air Marshal P O Sturley CB MBE BSc FRAeS Air Marshal Sir Dusty Miller KBE Air Vice-Marshal P Liddell CB BSc CEng FIET FRAeS Air Vice-Marshal Nigel Bairsto CB MBE Air Commodore A H Vaughan OBE BA FIMgt
HONORARY VICE-PRESIDENT	Air Chief Marshal Sir Stephen Hillier KCB CBE DFC ADC MA RAF
TRUSTEE MEMBERS OF THE COUNCIL	
President	Air Marshal Sir Baz North KCB OBE MA FRAeS (from May 2017) Air Marshal Sir Dusty Miller KBE (until May 2017)
Chairman	Air Vice-Marshal J Cliffe CB OBE
Vice-Chairman	Dr B Pattison OBE
Treasurer	Mr P Tagg
Elected members	Dr B Pattison OBE Mr A P Rees Mr M J Blackman Group Captain R J Whittingham FRAeS RAF (R'td) Mrs J A Boothman Mr I L McEnnis DipNEBSM AInstAM (Dip) Mr C Goss MA Squadron Leader D Gibson RAF
Area representatives	Mr F C Barrett MBE (South East and Eastern) Mr R Chandler BEM (Scotland and Northern Ireland) Mr B Darke MBE (European) Mr M Watkins (Northern) (to November 2017) Mr D Chappell (Northern) (from January 2018) Mr J A Tisbury MBE MRAeS MCMI (Wales, Midland and South Western) (to May 2017) Mr G Bridgman (Wales, Midlands and South Western) (from May 2017)

Members appointed by the Royal Air Force	Air Commodore G A Opie MDA MA BSc FCIPD RAF Squadron Leader A Morris RAF Flight Sergeant W S Swiggs
RAF Benevolent Fund representative	Air Commodore A Neal AFC FRAeS (to February 2018)
Appointed member	Mrs P Bearblock (from May 2017) Ms F Barber (from February 2018) Ms S Barber (from February 2018) Air Vice-Marshal M Neal OBE CEng FIET (from February 2018)
EXECUTIVE DIRECTORS	
Secretary General	Mr N Bunting CDir FIOD MCMI
Director of Finance	Mr A Wilkinson-Sharpe FCCA
Director of Governance and Risk	Mrs V Hall (from January 2018)
Director of Welfare and Policy	Mr R O'Connor
Director of Membership and Operations	Mr D Prowse OBE (to March 2017)
Director of Membership	Mr D Rowlands MA Chartered MCIPD RAFR (from October 2017)
Director of Marketing, Fundraising and Trading	Ms R Huxford
Director RAF Families Federation	Mr W Mahon
Director of HR and Volunteering	Mrs A Hunter FCIPD
Chief Information Officer	Mr P Sherwin
PROFESSIONAL ADVISORS	
Auditors	RSM UK Audit LLP, St Philips Point, Temple Row, Birmingham B2 5AF
Bankers	Lloyds Bank plc, Law Courts Branch, 222 Strand, London WC2R 1BB
Investment Managers	Rathbones Investment Management Limited, 1 Curzon Street, London W1J 5FB
Solicitors	Freeth Cartwright LLP, One Colton Square, Leicester, LE1 1QH



The Royal Air Forces Association **Trustees' report**

The trustees of The Royal Air Forces Association (the Association) present this report and the financial statements of the Association for the year ended 31 December 2017.

The financial statements have been prepared based on the accounting policies set out in note 2 to the financial statements and comply with the Royal Charter.

OUR MISSION

Our purpose and reason for existence is enshrined within the charitable objective set out at Article two of our Royal Charter, which states: "The object for which the Association is established is to promote, through the comradeship engendered by its members, the welfare by charitable means of all serving and former members of Our Air Forces, their spouse and dependants, together with the widows and widowers and dependants of those who died whilst serving or subsequently."

Activities

In pursuit of our mission, the Association offers support and friendship to its members and the 1.5 million members of the RAF family who are either serving or who have served in the RAF (whether as a regular or reservist) and their spouses, partners or dependent children. Whatever their need, they can rely on us to give practical assistance, expert advice and emotional support.

The vital role played by our 72,000 members cannot be over-stated. The RAF Association is a membership organisation with approximately 400 branches and with members located in over 90 countries. Our members are at the heart of the Association. Many thousands volunteer their time to deliver welfare services, raise essential funds and help in countless other important ways.

Much of our work with RAF veterans and their families tackles loneliness, isolation and mobility – issues that can blight the lives of proud, fiercely independent people. We seek support funding for individuals when appropriate and we give expert advice and assistance on War Pensions and the Armed Forces Compensation Scheme claims. To support independent living, we provide a variety of respite break and supported housing facilities around the UK.

For serving personnel, our focus is on keeping families strong and connected. We fund free wi-fi in communal areas on RAF stations to make it easier for families to talk to their loved ones when they are apart.

Our Storybook Wings project is designed to support any RAF child who struggles when a parent is not at home – whether on deployment or working away during the week. Unfortunately, family ties sometimes get broken.

To help in these situations, we fund the refurbishment of comfortable contact houses where, for example, a separated parent can spend a precious weekend with their children.

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External assistance

The Association did not receive any government assistance during 2017 and was a self-financing organisation. The main sources of income were fundraising campaigns, including community fundraising (particularly that undertaken by branches) and individual

giving, together with gifts generously given in wills. Successful fundraising is critical to the sustained financial health of the Association and our ability to provide support to the RAF family.

Voluntary help

The trustees are extremely grateful for the generous support of our members and the public in supporting the Association.

In 2017, we recorded 3,573 active volunteers undertaking over 5,000 volunteering roles, including welfare, branch support and fundraising.

We developed the guidance, support and recognition given to these volunteers, in acknowledgement of the vital role they play in the Association's success; indeed, our organisation could not function without them, and we therefore continuously seek to recruit new volunteers, predominantly for welfare and branch support roles. It is not possible to quantify with any accuracy the overall financial impact our volunteers have and therefore this is not included in the Statement of Financial Activities (SOFA).

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Public benefit

We have taken due regard and complied with the Charity Commission's general guidance on public benefit. Support provided by the Association is not restricted to its members, any member of the RAF family is eligible.

Welfare support is provided free of charge to recipients, while sheltered housing and residential schemes are subject to reasonable rent and service charges. Fees are charged for welfare breaks at the Wings Breaks hotels; however, the hotels are heavily subsidised, thereby keeping costs down and making them affordable to the wider RAF family.

Additionally, further financial assistance is available to individuals after a confidential financial assessment.

In drafting the above statements, the trustees have complied with the duty in the Charities Act 2011, to have due regard to public benefit guidance published by the Charity Commission.

Report and financial statements

Achievements and performance

As part of our annual planning cycle, a number of surveys were undertaken by the Association to determine positioning and beneficiaries' responses to our welfare activities. The Royal British Legion (RBL) and RAF Benevolent Fund (RAFBF) also undertook research, which involved consultation with a broad range of stakeholders across the UK.

Towards the end of 2015, the insights gained from this broad range of research played a central role in the formulation of our 2020 strategic objectives and our 2017 and 2018 operating plans.

Our 2020 strategic objectives are to:

- **Establish the Association as a leading provider of welfare services to the RAF family to improve the lives of beneficiaries**
- **Champion the interests of our members, beneficiaries and the sector as a whole**
- **Grow the membership to 100,000**
- **Grow income to a minimum of £15 million per annum in a diverse and sustainable manner which meets service needs and ensures financial stability**
- **Become recognised for excellence, achievement and responsibility**

Clear articulation of these longer-term goals enabled the Association to create a fully integrated annual operating plan with clear objectives and deliverables.

Led by Council (our trustee board) and involving key stakeholders among both our membership and our employees, the strategic operating plan is designed to be a building block on our journey to 2020.

Council, supported by specialist committees, regularly scrutinised progress against each objective throughout 2017. Activity to ensure further success in achieving these strategic objectives will continue throughout 2018.



Report and financial statements

Financial review

During the year, the consolidated income raised from members, volunteers, the general public and investments was £14,496k, an increase of 12.8 per cent (2016: £12,852k).

Accurate predictions of income are extremely difficult due to uncertainty surrounding donations including legacies, and the impact of economic and other external factors. In 2017 legacy income was £4,621k, a fall of £1,785k from 2016.

The annual Wings Appeal remains an important source of funding, raising £1,275k, an increase of £35k from 2016. Investment income of £1,008k was an increase of 61.3 per cent year-on-year (2016: £625k) underpinned by strong investment performance.

In 2017 expenditure of £14,102k was £2,362k above the 2016 level. Over £10,500k supported residential and Wings Breaks hotels and activities providing friendship and welfare support.

There have been no significant changes to the nature of the charitable activities and there has been no decrease in levels of service.

Costs of raising funds fell by £173k; this is largely due to a pause in the investment associated with large door-to-door campaigns, the success of which will be evaluated in 2018, and the continuing drive to diversify, which will realise extra income without incurring extra costs in coming years.

The Association has a trading subsidiary and publishing subsidiary, RAFATRAD Limited, which publishes a quarterly members' magazine (Air Mail), undertakes fulfilment activity for the charity and sells commemorative items and memorabilia.

RAFATRAD Limited made an operating loss in 2017 (breaking even in 2016) following a significant business restructure during the year, which resulted in an entire business relocation to Atlas House.

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There will therefore be no donation to the Association this year. The plan to bring RAFATRAD Limited back to profitability is working well with further projects around cost efficiency, product diversity and increased market share taking place during 2018.

The Association acquired the entire net assets of RAFA Housing Limited

at the start of 2017 following lengthy discussions with the trustee bodies of both the Association and RAFA Housing Limited.

The acquisition was concluded for £nil consideration and the Association will continue to run RAFA Housing Limited as a standalone and autonomous organisation. The net assets of RAFA Housing Limited are consolidated at group level.

The Association's investment portfolio of £23,206k reflects an increase in market value of £1,379k from 2016. The Association has no current plans to sell any of its investments as its financial plan generates sufficient income to cover the costs of delivering its charitable activities.

The Association's investment manager has, however, been instructed to be ever more vigilant during a time of economic and political uncertainty.

The deficit in the defined benefit pension scheme at 31 December 2017 has been calculated in accordance with FRS102 regulations. The amount of the deficit has fallen from £2,270k in 2016 to £1,621k at the end of 2017.

The fall is a result of a change in actuarial assumptions, which take account of current economic conditions. The Association made additional payments of £444k in 2017 (2016: £432k) into the scheme and remains firmly committed to reducing the deficit and in the long term eradicating it completely.

In accordance with the requirements of the Office of the Scottish Charity Regulator, the Association has produced a SOFA in addition to a consolidated statement that includes the trading subsidiary.

The commentary refers to the consolidated SOFA which is set out on pages 22 and 23. Net income before other recognised gains and losses was £2,281k (2016: £3,563k).

Report and financial statements

Investment policy and performance

The trustees have the power to invest any of the central funds of the Association not immediately required for the purposes of the Association in accordance with the provisions of the Trustee Act 2000. The trustee appointed investment manager, Rathbones Investment Management Limited, is managed by Council and assisted through independent oversight provided by Asset Risk Consultants.

The investment portfolio comprises three main elements: (1) an unrestricted fund, (2) the Formby Branch deposit fund, and (3) the branch deposit fund, a pooled fund of monies held in trust for and invested on behalf of the Association's branches. The Association continues to reinvest dividend income back into the portfolio, which amounted to £961k during 2017 (2016: £603k).

The Association's investments were reviewed at two committee meetings in 2017 and performance reported to Council. The Association also undertook an independent triennial review of the performance of the investment manager during the year, following which Rathbones were re-appointed for a further three years.

The Association will continue to employ the services of Asset Risk Consultants throughout 2018 to provide analysis and evaluation of investment performance, which serves to enhance the decision-making capability of the investment committee.

Report and financial statements

Reserves policy

The reserves policy is subject to continuous review by Council in recognition of the ever-changing political and economic environment. Trustees have adopted a prudent approach to ensure that the Association holds sufficient reserves in order to quickly and effectively respond to welfare needs, current and future.

The size of the future welfare commitment is difficult to quantify, but is likely to rise as a consequence of the intensive operations such as those in Afghanistan and the broader Middle East.

From research undertaken during 2015 and 2016, the Association is aware of a growing need among the younger generation and with more and more serving personnel becoming members of the Association, this need is likely to grow.

Linked to this uncertainty is a forecast long-term decline in legacy income, compounded by cuts in social welfare budgets across the UK.

There is also the risk associated with having a large value investment portfolio where political uncertainty throughout the USA, the UK and mainland Europe has resulted in higher than expected gains, which could be subject to a correction at any time.

Taking all factors into account, the trustees have adopted a reserves policy, which seeks to mitigate risks associated with holding large value investment and property assets.

The Association adopts a forward-looking strategic outlook on the needs of the RAF family and consequently does not use short-term measures focusing on a limited number of months operating costs, although due consideration is given to costs associated with normal continuing operations over a 12 month period.

At the end of December 2017 consolidated general unrestricted reserves totalled £12,425k (2016: £13,051k) following a transfer of £1,795k to designated reserves, which totalled to £20,375k at the end of December 2017 (2016: £18,580k).

Consolidated unrestricted reserves totalled to £31,610k at the end of December 2017 (2016: £29,441k). Consolidated free reserves (net general reserves) at the end of December 2017 totalled £10,804k, (2016: £10,781k) which the Association is holding to fund 2018 anticipated expenditure of up to 12 months and are therefore in-line with the stated reserves policy, however a prudent approach is being adopted to ensure that strategic transformation projects can be funded.

Restricted reserves grew from £933k in 2016 to £1,338k at the end of December 2017.

The Association is aware of a growing need among the younger generation and with more and more serving personnel becoming members of the Association, this need is likely to grow

Report and financial statements

Structure, governance and management

The Association is a registered charity governed by a Supplemental Royal Charter and Schedule of Rules effective from 1 September 1996 with subsequent updates, principally that of the 16 November 2016.

The charity is also known as the RAF Association and RAFA. The Association is registered with the Charity Commission and with the Office of the Scottish Charity Regulator.

The Association is a democratic, non-sectarian, non-political organisation with no affiliation to any party or party organisation or trade union. The Association is a member of the Confederation of British Service and Ex-service Organisations (Cobseo).

The Association is an international organisation with 72,000 members and has branches in many parts of the world. Many branches in England and Wales are registered separately with the Charity Commission and those in Scotland with the Office of the Scottish Charity Regulator.

Branches in Northern Ireland are deemed to be a charity regulated under the Association's charity number, 226686, which in turn means that branches in Northern Ireland are registered under Section 167 of the Charities Act (Northern Ireland) 2008.

Branch accounts are not consolidated with those of the central charity. Branches fundraise on their own behalf and on behalf of the central charity; monies that are raised by the branches in respect of the annual Wings Appeal are given to the central charity. The central charity provides branches with an annual rebate, which is used to fund welfare activity locally.

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Structure, governance and management

Trustees' and organisational structure

Persons elected or appointed to Council are the trustees of the Association (shown on pages one and two), and are responsible for the governance and control of the affairs of the Association and the administration of its property and income. As at 31 December 2017 there were 23 trustee members who had been elected or nominated as shown below:

- The President of Council – elected by the Annual Conference of the Association in 2017 for a period of three years
- The Chairman of Council – elected by the Annual Conference of the Association in 2016 for a period of three years
- The Treasurer of Council – elected by the Annual Conference of the Association in 2012 and re-elected in 2015 and 2017 for a further term of three years
- The Vice-Chairman of Council – elected from among the members of Council in 2012 and re-elected in 2016 for a further term of two years
- Eight elected members elected by the branches of the Association in 2016 for a term of office of two years
- Five area representatives elected by Area Councils in 2015 for a term of office of two years and re-elected in 2017 for a further period of two years
- Three service representatives – appointed by the Royal Air Force for a term of office as decided by the Service
- An RAF Benevolent Fund representative – nominated by the RAF Benevolent Fund for a term of office as decided by the RAF Benevolent Fund
- Up to a maximum of four co-opted trustees – selected by interviewing candidates to fill specific skill sets

Those members of the Association that wish to be elected are required to publish a statement prior to the elections of their recent Association achievements together with their proposed aims for the period for which they are seeking election. These statements are available to all members of the Association via Air Mail, the magazine of the Association.

Governance

Where new trustees (members of Council) are appointed, they are given a formal induction to the work of the Association and provided with the information they need to fulfil their duties. This includes information about the role of trustees and charity law. Further training is provided to meet specific needs. In 2017 trustees were provided with training on the use of IT, charities finance, the code of conduct and risk management. In addition, executive directors work closely with trustees and update trustees and non-executive directors on matters within their areas of responsibility as and when required.

All trustees give their time voluntarily and receive no benefits from the charity. Any expenses reclaimed from the charity are set out in note 9 to the accounts.

The trustees normally meet collectively six times a year as the Council. Supporting committees assist with the monitoring of the Association's activities. The committees are finance, fundraising and communications; member, supporter and partner engagement; strengthening the membership; information environment; nominations and remunerations.

The nominations and remunerations committee meets twice a year and makes recommendations on matters such as pay and allowances. Other committees normally meet four times a year and

the finance committee sets investment objectives, reviews investment performance and makes recommendations about the investment of surplus funds to Council. The audit committee reviews risk, governance and reports to the Council annually. Trustees chair and have lead responsibility for the committees, reporting on performance and recommending policy to Council. Council also receives an annual report on health and safety through a lead member.

Trustees make and approve the Association's policy, through a scheme of delegated authority, approved annually by Council; the day-to-day management of the Association is delegated to the Secretary General and his team.

The membership and welfare teams work on a geographical basis via a number of area offices. The area offices work with their respective Area Councils and support the activities of branches within the areas.

As at 31 December 2017 there were five areas that monitored, supported, assisted and advised the activities of nearly 400 branches. Branches, on official closure, can form a registered members' group (RMG) if they wish. An RMG holds no funds and has no voting rights but is still able to meet, parade their branch standard and raise funds for the Association.

Senior management remuneration

Executive senior management consists of the Secretary General, Director of Membership, Director of Welfare and Policy, Director of Marketing, Fundraising and Trading, Director of Finance, Director of HR and Volunteering, Director of Governance and Risk and Chief Information Officer.

Council, through the nominations and remunerations committee, sets pay and conditions for all employees, including the senior management executive. Employee pay scales are

reviewed annually in August and any changes are implemented from 1 January each year.

Salary benchmarking is undertaken using data from the Office for National Statistics (ONS) and surveys by Croner and XpertHR. The Association has introduced the Living Wage on a discretionary basis and voluntarily recognises GMB for collective bargaining for statutory activity including pay.

Risk management

The trustees have identified the main risks facing the Association. The risks are monitored via a traffic light warning system within the Association's risk register, which is reviewed at every Council and committee meeting. Where appropriate risks are also covered by insurance, the main risks and mitigation plans are:

- **Financial sustainability, including reliance on legacy income. Plans include expanding the Association's income streams, greater use of IT to increase income and to improve operational efficiency**
- **Maintaining a large membership base. Plans include recruitment campaigns at RAF stations, improved retention by engaging with personnel leaving the RAF and improving contact with current membership**
- **Reputation of the Association meeting expectations of beneficiaries, members and the public. Plans include increased communications promoting the service provided by the Association and its successes**

Trustees' responsibilities in relation to financial statements

The trustees are responsible for preparing the trustees' report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards. The law applicable to charities in England and Wales, Scotland and Northern Ireland requires the trustees to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Association and the group and of the incoming resources and application of resources of the Association and the group 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 Statement of Recommended Practice
- Make judgments and estimates that are reasonable and prudent
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Association will continue in business

The trustees are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Association and the group and enable them to ensure that the financial statements comply with the Charities Act 2011, the Charity (Accounts and Reports) Regulations 2008, the Charities and Trustee Investment (Scotland) Act 2005, the Charities Accounts (Scotland) Regulations 2006 and the provisions of the Royal Charter.

They are also responsible for safeguarding the assets of the Association and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as the trustees are aware:

- There is no relevant audit information of which the Association's auditor is unaware; and
- The trustees have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information

This report was approved by the trustees on 11 April 2018 and signed on their behalf by:



Air Vice-Marshal John Cliffe CB OBE
Chairman of Council

Independent auditors' report to the trustees of the Royal Air Forces Association

Opinion

We have audited the financial statements of Royal Air Forces Association (the 'parent charity') and its subsidiaries (the 'group') for the year ended 31 December 2017 which comprise the group and parent charity statement of financial activities, the group and parent charity balance sheets, the group and parent charity statements of cashflows and 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 FRS 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 group's and parent charity's affairs as at 31 December 2017 and of the group's and parent charity's incoming resources and application of resources for the year then ended
- Have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice
- Have been prepared in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005, regulations 6 and 8 of the Charities Accounts (Scotland) Regulations 2006 (as amended) and the Charities Act 2011

Basis for opinion

We have been appointed auditors under section 44(1) (c) of the Charities and Trustee Investment (Scotland) Act 2005 and under section 151 of the Charities Act 2011 and report in accordance with regulations made under those Acts.

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 group and parent charity 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:

- 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 group's or parent charity'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 trustees' 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, 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.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Charities Accounts (Scotland) Regulations 2006 (as amended) and the Charities Act 2011 require us to report to you if, in our opinion:

- **The information given in the trustees' report is not consistent in any material respect with the financial statements**
- **Proper and sufficient accounting records have not been kept by the parent charity**
- **The parent charity financial statements are not in agreement with the accounting records and returns**
- **We have not received all the information and explanations we require for our audit**

Responsibilities of trustees

As explained more fully in the statement of trustees' responsibilities set out on pages 8 and 9, the trustees 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 group and parent

charity'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 group or parent charity 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.

This report is made solely to the charity's trustees, as a body, in accordance with section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005, and regulation 10 of the Charities Accounts (Scotland) Regulations 2006 (as amended) and the Charities Act 2011. Our audit work has been undertaken so that we might state to the charity's trustees 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 charity and its trustees as a body, for our audit work, for this report, or for the opinions we have formed.

RSM UK Audit LLP

RSM UK Audit LLP
Statutory Auditor
St Philips Point
Temple Row
Birmingham
B2 5AF

Monday 23 April 2018

RSM UK Audit LLP is eligible to act as an auditor in terms of section 1212 of the Companies Act 2006



Consolidated statement of financial activities

for the year ended 31 December 2017

Income:	Notes	Unrestricted funds £'000	Restricted funds £'000	Total 2017 £'000	Total 2016 £'000
Donations and legacies	3	8,489	576	9,065	9,850
Income from charitable activities: Residential and respite care homes	6	1,382	1,192	2,574	1,391
Income from other trading activities: Trading income Grand Draw and other fundraising income	4	550 699	- -	550 699	310 676
Investment income	5	1,008	-	1,008	625
Other income Share of net profit in joint venture	13	600	-	600	-
Total Income		12,728	1,768	14,496	12,852

Expenditure:	Notes	Unrestricted funds £'000	Restricted funds £'000	Total 2017 £'000	Total 2016 £'000
Cost of raising funds		3,389	1	3,390	3,563
Expenditure on charitable activities: Residential and respite care homes Friendship and welfare support Grants Other support costs		3,134 5,021 722 414	41 1,203 118 -	3,175 6,224 840 414	3,163 4,180 531 238
Other expenditure: Interest paid on branch deposits Interest on defined benefit pension Liabilities		2 57	- -	2 57	3 62
Total expenditure	7	12,739	1,363	14,102	11,740

	Notes	Unrestricted funds £'000	Restricted funds £'000	Total 2017 £'000	Total 2016 £'000
Net gains on investment assets	13	1,887	-	1,887	2,451
Net income		1,876	405	2,281	3,563
Transfer between funds	19	-	-	-	-
		1,876	405	2,281	3,563
Other recognised gains/(losses):					
Actuarial (losses)/gains on defined benefit pension scheme	11	293	-	293	(740)
Net movement in funds		2,169	405	2,574	2,823
Reconciliation of funds Total funds brought forward		29,441	933	30,374	27,551
Total funds carried forward		31,610	1,338	32,948	30,374

All income and expenditure derive from continuing activities.

The consolidated statement of financial activities includes all gains and losses recognised in the year.

Association statement of financial activities

for the year ended 31 December 2017

Income:	Notes	Unrestricted funds £'000	Restricted funds £'000	Total 2017 £'000	Total 2016 £'000
Donations and legacies	3	8,062	576	8,638	9,850
Income from charitable activities: Residential and respite care homes	6	1,382	1,192	2,574	1,391
Income from other trading activities: Trading income Grand Draw and other fundraising income	-	699	-	699	676
Investment income	5	1,008	-	1,008	625
Total income		11,151	1,768	12,919	12,542

Expenditure:	Notes	Unrestricted funds £'000	Restricted funds £'000	Total 2017 £'000	Total 2016 £'000
Cost of raising funds		2,763	1	2,764	3,253
Expenditure on charitable activities: Residential and respite care home Friendship and welfare support Grants Other support costs		3,134 5,021 722 414	41 1,203 118 -	3,175 6,224 840 414	3,163 4,180 531 238
Other expenditure: Interest paid on branch deposits Interest on defined benefit pension Liabilities		2 57	- -	2 57	3 62
Total expenditure	7	12,113	1,363	13,476	11,430

	Notes	Unrestricted funds £'000	Restricted funds £'000	Total 2017 £'000	Total 2016 £'000
Net gains on investment assets	13	1,887	-	1,887	2,451
Net income		925	405	1,330	3,563
Transfer between funds	19	-	-	-	-
		925	405	1,330	3,563
Other recognised gains/(losses):					
Actuarial (losses)/gains on defined benefit pension scheme	11	293	-	293	(740)
Net movement in funds		1,218	405	1,623	2,823
Reconciliation of funds Total funds brought forward		29,361	933	30,294	27,471
Total funds carried forward		30,579	1,338	31,917	30,294

All income and expenditure derive from continuing activities.

The Association statement of financial activities includes all gains and losses recognised in the year.

Consolidated and Association balance sheets

at 31 December 2017

	Notes	Group		Association	
		2017 £'000	2016 £'000	2017 £'000	2016 £'000
Fixed assets:					
Tangible assets:					
Properties	12	5,519	5,413	5,206	5,413
Equipment and furniture	12	1,472	1,149	1,363	1,149
		6,991	6,562	6,569	6,562
Investments:					
Investments	13	23,206	22,449	22,606	22,449
Programme related investments - loans to branches	14	152	137	152	137
Total fixed assets		30,349	29,148	29,327	29,148
Current assets:					
Stocks		151	148	9	10
Debtors	15	584	567	747	605
Cash at bank and in hand		7,358	6,291	7,006	6,244
Total current assets		8,093	7,006	7,762	6,859
Current liabilities:					
Creditors: amounts falling due within one year	16	(3,585)	(3,510)	(3,551)	(3,443)
Net current assets		4,508	3,496	4,211	3,416
Total assets less current liabilities		34,857	32,644	33,538	32,564
Creditors: amounts falling due after more than one year	17	(288)	-	-	-
Net assets excluding pension scheme liability		34,569	32,644	33,538	32,564

Defined benefit pension scheme liability	11	(1,621)	(2,270)	(1,621)	(2,270)
Net assets including pension scheme liability		32,948	30,374	31,917	30,294

	Notes	Group		Association	
		2017 £'000	2016 £'000	2017 £'000	2016 £'000
Funds:					
Income funds:					
Restricted funds	19	1,338	933	1,338	933
Unrestricted funds:					
Designated funds	20	20,375	18,580	20,375	18,580
General funds		12,425	13,051	11,825	13,051
Pension scheme deficit	11	(1,621)	(2,270)	(1,621)	(2,270)
Net general funds					
Non-charitable funds	4	10,804 431	10,781 80	10,204 -	10,781 -
Total funds		32,948	30,374	31,917	30,294

The financial statements on pages 22 to 55 were approved and authorised for issue by the trustees on 11 April 2018 and signed on their behalf by:



Air Vice-Marshal John Cliffe CB OBE
Chairman of Council

Consolidated and Association statements of cashflows

for the year ended 31 December 2017

	Notes	Group		Association	
		2017 £'000	2016 £'000	2017 £'000	2016 £'000
Cash flows from operating activities	22	(1,386)	419	(1,406)	463
Cash flows from investing activities					
Investment income		1,001	618	1,001	618
Interest receivable		7	7	7	7
Interest payable		(2)	(3)	(2)	(3)
Receipt of Kaupthing Singer and Friedlander monies		54	76	54	76
Payments to acquire tangible fixed assets		(601)	(1,332)	(568)	(1,332)
Receipts from disposals of fixed assets		-	631	-	631
Payments to acquire investments		(1,331)	(1,597)	(1,331)	(1,597)
Receipts from disposals of investments		3,007	1,536	3,007	1,536
Cash acquired on acquisition		318	-	-	-
Net cash used in investing activities		2,453	(64)	2,168	(64)
Cash flows from financing activities					
Decrease in loans to branches		(15)	10	(15)	10
Decrease in deposits by branches		15	(79)	15	(79)
Net cash used in financing activities		-	(69)	-	(69)
Change in cash and cash equivalents in the year		1,067	286	762	330
Cash and cash equivalents at the beginning of the year		6,291	6,005	6,244	5,914
Cash and cash equivalents at the end of the year	23	7,358	6,291	7,006	6,244



Notes to the financial statements

1. Critical accounting estimates and areas of judgement

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. There are no critical accounting estimates and areas of judgement to note.

2. Principal accounting policies

General information

The Royal Air Forces Association is incorporated by Royal Charter and is a registered charity at the Charity Commission in England and Wales and at the Scottish Charity Regulator (OSCR) in Scotland.

The address of the charity's registered office and principal place of business is Atlas House, 41 Wembley Road, Leicester LE3 1UT.

The group consists of the Association and its two subsidiaries as set out in note 4. The nature of the group's operations are set out in the trustees' report.

Basis of preparation

The financial statements have been prepared under the historical cost convention, with the exception of investments, which are included at fair value, and in accordance with applicable United Kingdom accounting standards. 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 United Kingdom and Republic of Ireland (FRS102) issued on 16 July 2014, the Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland (FRS102), the Charities Act 2011, the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended) and UK Generally Accepted Accounting Practice as it applies from 1 January 2015.

The financial statements of the Association comprise the central and area funds of the Association but not the branches which are separate registered charities and do not share common Trustees with the Association.

The Association meets the definition of a public benefit entity under FRS102 and have therefore applied the relevant public benefit requirements of FRS102.

Monetary amounts in the financial statements are rounded to the nearest £1,000. The financial statements are presented in sterling which is also the functional currency of the Association.

Going concern

The accounts have been prepared on a going concern basis. Having carried out a detailed review of the Association's resources and the challenges presented by the current economic climate, the trustees are satisfied that the Association has sufficient cash flows to meet its liabilities as they fall due for at least one year from the date of the approval of the accounts.

There are no significant financial uncertainties which the trustees consider are a significant risk to the ability of the Association to trade as a going concern in the foreseeable future.

Consolidation

The consolidated statement of financial activities (SOFA) and group balance sheet consolidate the financial statements of the Association and its subsidiaries (RAFATRAD Limited and RAFA Housing Limited). The results of the subsidiaries are consolidated on a line by line basis. Intra group transactions, balances and unrealised gains are eliminated on consolidation. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by other members of the group.

Joint ventures

Entities in which the group holds an interest and which are jointly controlled by the group and one or more other ventures under a contractual arrangement are treated as joint ventures. In the group financial statements, joint ventures are accounted for using the equity method. Under the equity method of accounting, an equity investment is initially recognised at transaction price (including transaction costs) and is subsequently adjusted to reflect the investors' share of the profit or loss, other comprehensive income and equity of the joint venture.

Fund accounting

General funds are unrestricted funds which are available for use at the discretion of the trustees in furtherance of the objectives of the Association and which have not been designated for other purposes.

Designated funds are unrestricted funds that have been set aside by the trustees for particular purposes. These funds are reviewed annually.

Restricted funds are funds which are to be used in accordance with specific restrictions imposed by donors or which have been raised by the Association for particular purposes. Expenditure is charged to the SOFA when incurred.

Income

All income is included in the SOFA when the Association has entitlement to the funds, any performance conditions attached to the income have been met, 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.

Income in the form of donations and subscriptions is included when receivable. Legacies are accounted for as soon as entitlement, probability and a monetary value can be established. The grant from the MOD is included as income in the period it is earned.

Fundraising income is included in income in the period in which the Association becomes entitled to receipt. Trading income is recognised as earned.

Investment income is included when receivable.

Income from charitable activities is included in income in the period in which the Association becomes entitled to receipt.

Expenditure

All expenditure is accounted for on an accruals basis as a liability is incurred or when the Association is deemed to have a legal or constructive obligation which will result in a probable transfer of economic benefits. Expenditure has been classified under headings that aggregate all costs related to the category.

Costs of raising funds include fundraising trading costs and investment management costs. These costs are regarded as necessary to generate funds that are needed to finance charitable activities.

Charitable activities expenditure enables the Association to meet its charitable aims and objectives and include both direct and support costs relating to the activity.

Support costs, which include the secretariat, finance, information technology and human resources, have been allocated to cost of raising funds and charitable activities on the most appropriate basis. Secretariat and finance costs have been allocated on the basis of time spent. Information technology costs have been allocated on the basis of equipment usage. Human resource costs have been allocated on the basis of staff numbers.

Grants

Grants are accounted for when either the recipient has a reasonable expectation that they will receive a grant or when the trustees have agreed to pay the grant without condition.

Exceptional items

Exceptional items are disclosed separately where that degree of prominence is necessary in order to give a true and fair view.

2. Principal accounting policies (continued)

Tangible fixed assets

Tangible fixed assets are initially recorded at cost and subsequently measured at cost net of depreciation and any impairment loss. Depreciation is provided for on all tangible fixed assets at rates calculated to write each asset down to its estimated value evenly over its expected useful economic lives as follows:

• Freehold properties	2 per cent on cost
• Short leasehold properties	over the terms of the leases
• Computer equipment	25 per cent on cost
• Other equipment and furniture	between 15 per cent and 25 per cent on net book value
• Motor vehicles	25 per cent on net book value

Impairment reviews are carried out where there are indications that recoverable amounts of fixed assets are below their carrying values. Shortfalls between the carrying value of fixed assets and their recoverable amounts are recognised as impairment losses in the SOFA.

Investments

Long term investments are classified as fixed assets. Short-term investments are classified as current assets.

Listed investments are stated at fair value at the balance sheet date. Unlisted investments are stated at cost less impairment at the balance sheet date. Both realised and unrealised gains and losses are shown in the SOFA. The fair value of the investments quoted on a recognised stock exchange is the quoted bid price.

Stocks

Stocks are valued at the lower of cost and net realisable value. Net realisable value is based upon estimated selling price less further costs expected to be incurred to completion and disposal. Provision is made for obsolete and slow moving items.

Financial instruments

The group has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS102, in full, to all of its financial instruments.

Financial assets and financial liabilities are recognised when the group becomes a party to the contractual provisions of the instrument, and are offset only when the group currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Trade debtors, group debtors and other debtors

Trade debtors, group debtors and other debtors (including accrued income) which are receivable within one year and which do not constitute a financing transaction are initially measured at the transaction price and are subsequently measured at amortised cost, being the transaction price less any amounts settled and any impairment losses.

A provision for impairment of trade debtors is established when there is objective evidence that the amounts due will not be collected according to the original terms of the contract. Impairment losses are recognised in profit or loss for the excess of the carrying value of the trade debtor over the present value of the future cash flows discounted using the original effective interest rate. Subsequent reversals of an impairment loss that objectively relate to an event occurring after the impairment loss was recognised, are recognised immediately in the SOFA.

Financial liabilities and equity

Financial instruments are classified as liabilities and equity instruments according to the substance of the contractual arrangements entered into.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

Other creditors and accruals

Other creditors (including accruals) payable within one year that do not constitute a financing transaction are initially measured at the transaction price and subsequently measured at amortised cost, being the transaction price less any amounts settled.

Derecognition of financial assets and liabilities

A financial asset is derecognised only when the contractual rights to cash flows expire or are settled, or substantially all the risks and rewards of ownership are transferred to another party, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party.

A financial liability (or part thereof) is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

Pension costs

The Association operates a defined benefit pension scheme that closed to new entrants in December 2000 and to future accrual on 31 December 2012.

Contributions are paid to the scheme in accordance with the recommendations of the scheme actuary.

Actuarial gains and losses arising from any new valuation and from updating the latest actuarial valuation to reflect conditions at the balance sheet date are recognised in the SOFA. The interest costs and the interest on assets are shown as a net amount of income or expenditure as appropriate. Other adjustments are included within employee costs.

As detailed in note 11, pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis and discounted at a rate equivalent to the current rate of return of a high quality corporate bond of equivalent currency and term of the scheme liabilities. Full updated actuarial valuations are obtained triennially and are reviewed in the following two years at each balance sheet date. The defined benefit pension scheme asset or liability is presented separately after other net assets on the face of the balance sheet.

The assets relating to the pension scheme are held separately from those of the Association in separate trustee administered funds.

The Association also contributes to individual employees' personal stakeholder pension arrangements, where employees are not members of the defined benefit scheme. Contributions payable are charged to the SOFA as they become payable. Differences between contributions payable in the year and contributions actually paid are shown in either accruals or prepayments in the balance sheet.

Operating lease agreements

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

Volunteers

No amounts are included in the financial statements to reflect the value of work undertaken by volunteers.

3. Donations, legacies and subscriptions

Group and Association:	2017 £'000	2016 £'000
Donations		
Residential and respite care homes	89	138
Others	3,108	2,570
Legacies	4,621	6,406
Subscriptions	820	725
Grants	-	11
Association donations and legacies	8,638	9,850
Net assets of RAFA Housing Limited on acquisition (note 30)	427	-
Group donations and legacies	9,065	9,850

4. Subsidiaries

The Association owns the whole of the share capital of both RAFATRAD Limited and RAFA Housing Limited.

The activity of RAFATRAD Limited is publishing the official journal of the Association, selling advertising space, the sale of commemorative items and memorabilia and supplying fundraising equipment to branches of the Association.

The activity of RAFA Housing Limited is that of the provision of independent housing for retired members of the RAF family based in Storrington, West Sussex. The results of the subsidiaries and the amounts included within the Consolidated Statement of Financial Activities, after the elimination of intra-group transactions, are as follows:

	RAFA Housing Limited	RAFATRAD Limited 2017 £'000	Intra-group transactions 2017 £'000	Total 2017 £'000	Total 2016 £'000
Income					
Trading income	149	752	(351)	550	310
	149	752	(351)	550	310
Expenditure					
Trading costs	(149)	(828)	-	(977)	(578)
	(149)	(828)	-	(977)	(578)
Surplus/loss for financial year	-	(76)			

The loss for the financial year of RAFATRAD Limited of £76k is not eligible for distribution to the Association as a gift aid donation. In 2016 the profit for the financial year of RAFATRAD Limited of £265 was gifted to the Association. During the year Rafatrad Limited charged the Association £351k (2016: £268k) in respect of Air Mail and RAF Association branded goods. At the year end the Association was owed £251k (2016: £130k) by RAFATRAD Limited.

4. Subsidiaries (continued)

The aggregate of the assets, liabilities and funds, before intra-group adjustments, of the subsidiary companies at 31 December 2017 were:

	2017 £'000	2016 £'000
Assets	1,004	276
Liabilities	(573)	(196)
Funds (shares capitals and reserves)	431	80

The registered office of both subsidiaries is Atlas House, 41 Wembley Road, Leicester LE3 1UT.

5. Investment income and interest

Group:	2017 £'000	2016 £'000
UK listed investments	961	603
Cash deposits	6	6
Branch and other loans	1	1
Properties	40	15
	1,008	625

6. Income from residential and respite care homes

Group and Association:	2017 £'000	2016 £'000
Accommodation fees	1,118	1,276
Other income	1,456	115
	2,574	1,391

7. Total expenditure

Association:	Employee and related costs £'000	Depreciation £'000	Other costs £'000	Total 2017 £'000	Total 2016 £'000
Costs of raising funds:					
Direct costs	413	-	2,298	2,711	2,826
Allocated support costs	-	52	1	53	427
Charity's charitable activities:					
Direct costs	3,318	-	1,903	5,221	5,037
Allocated support costs	1,793	322	3,317	5,432	3,075
Other expenditure					
Interest paid on branch deposits	-	-	2	2	3
Interest paid on defined benefit pension liabilities	-	-	57	57	62
	5,524	374	7,578	13,476	11,430

	2017 £'000	2016 £'000
Allocated support costs:		
Heat and light	24	20
Other site costs	34	75
Advertising and promotions	676	318
Printing and stationery	106	95
Telephone	57	51
Insurance	108	82
Repairs and maintenance	15	18
Depreciation	374	341
Other expenditure	1,802	498
Other equipment	46	12
<i>Employee costs</i>	1,793	1,547
<i>Governance costs</i>	450	445
	5,485	3,502

7. Total expenditure (continued)

Group:	Employee and related costs £'000	Depreciation £'000	Other costs £'000	Total 2017 £'000	Total 2016 £'000
Costs of raising funds:					
Direct costs	413	-	2,924	3,337	3,136
Allocated support costs	-	52	1	53	427
Charity's charitable activities:					
Direct costs	3,318	-	1,903	5,221	5,037
Allocated support costs	1,793	322	3,317	5,432	3,075
Other expenditure					
Interest paid on branch deposits	-	-	2	2	3
Interest paid on defined benefit pension liabilities	-	-	57	57	62
	5,524	374	8,204	14,102	11,740

	2017 £'000	2016 £'000
Allocated support costs:		
Heat and light	24	20
Other site costs	34	75
Advertising and promotions	676	318
Printing and stationery	106	95
Telephone	57	51
Insurance	108	82
Repairs and maintenance	15	18
Depreciation	374	341
Other expenditure	1,802	498
Other equipment	46	12
Employee costs	1,793	1,547
Governance costs	450	445
	5,485	3,502

Included within total expenditure are payments under operating leases as follows:

- Land and buildings payments of £25k (2016: £24k)
- Equipment payments of £43k (2016: £58k)

The costs of raising funds includes Wings Appeal rebates allocated to branches totalling £152k (2016: £176k).

Support costs include £444k in respect of additional payments into the defined benefit pension scheme, (2016: £432k). Total expenditure includes auditors' remuneration of £38k (2016: £33k) and a profit on disposal of fixed assets of £nil (2016: £310k).

8. Grants payable

Group and Association:	2017 £'000	2016 £'000
Welfare grants to individuals	61	58

9. Transactions with trustees

The trustees neither received nor waived any emoluments during the year (2016: £nil).

Trustees expenses of £29,263 were reimbursed for directly incurred travel and subsistence expenses (2016: £28,743) to 25 trustees (2016: 24 trustees).

10. Employee costs

	Group		Association	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Wages and salaries	4,864	4,371	4,715	4,249
Social security costs	416	373	404	362
Employer contributions to defined contributions schemes	382	298	405	295
	5,662	5,042	5,524	4,906

The average number of employees throughout the year, calculated on a full-time equivalent basis, analysed by location was:

	Group		Association	
	2017 number	2016 number	2017 number	2016 number
Welfare	86	77	86	77
Membership	31	31	31	31
Headquarters and RAFATRAD Limited	46	42	44	40
Families Federation Service	11	10	11	10
RAFA Housing Limited	1	-	-	-
	175	160	172	158

The average number of employees (head count) during the year was 208 (2016: 215).

The number of employees whose emoluments for the year fell within the following bands was:

	Group	
	2017 number	2016 number
£60,000 to £69,999	-	4
£70,000 to £79,999	2	-
£80,000 to £89,999	3	1
£90,000 to £99,999	1	-

10. Employee costs (continued)

Six employees (2016: five) earning more than £60,000 participated in an Association defined contribution pension scheme. Employer contributions to individual stakeholder schemes were £40,064 (2016: £18,908).

The total employee benefits of the key management personnel of the Association were £672k (2016: £521k).

11. Pension schemes - Group and Association

The Association operates a defined benefit pension scheme, which closed to new entrants in December 2000 and to future accrual on 31 December 2012. The assets of the scheme are held separately from those of the Association in an independently administered fund. Contributions are based upon the recommendations of a qualified actuary.

The most recent actuarial valuation of the scheme was carried out as at 1 January 2016 by an independent actuary using the projected unit method. This valuation showed that the value of the scheme's assets was £14,761,000 which represented only 83 per cent of the benefits that

had been accrued to members, after allowing for expected future increases in earnings. In valuing the fund, it was assumed that the investment return would be 5.5 per cent per annum compound. The scheme deficit is secured against a charge on the Association's headquarters Atlas House at Leicester.

A full actuarial valuation was carried out at 1 January 2016 and updated on 31 December 2017 by a qualified independent actuary.

The major assumptions used by the actuary were:

	2017	2016
Rate of increase of pensions in payment	3.3%	3.3%
Discount rate	2.6%	2.8%
Inflation assumption (RPI)	3.3%	3.3%

The mortality assumptions used in the valuation of the pension liabilities were:

	2017 years	2016 years
Retiring today (currently aged 65):		
Males	21.9	22.3
Females	23.6	23.9
Retiring in 20 years (currently aged 45):		
Males	23.0	23.6
Females	24.5	25.0

11. Pension schemes - Group and Association (continued)

The Association's assets were transferred from Legal and General with-profits policy to managed fund investments on 15 January 2010. The Association's assets in the scheme at 31 December 2016 were:

	2017 £'000	2016 £'000		2017 £'000	2016 £'000
Bonds	3,484	3,402	Fair value of scheme assets	16,580	15,887
Equities	5,072	4,557	Present value of scheme liabilities	(18,201)	(18,157)
Property	1,146	1,021			
Annuities	6,766	6,907			
Net current assets	112	-			
Total assets	16,580	15,887	Deficit in the scheme	(1,621)	(2,270)

In accordance with FRS102, provision has been made by the Association for the deficit of the scheme. This is reflected in the financial statements as follows:

Analysis of the amounts charged to statement of financial activities:	2017 £'000	2016 £'000
Expenses paid by the scheme	31	51

Analysis of financial element of pensions cost:	2017 £'000	2016 £'000
Interest on assets	439	527
Interest on pension scheme liabilities	(496)	(589)
Net cost	(57)	(62)

11. Pension schemes - Group and Association (continued)

Analysis of the actuarial (loss)/gain on defined benefit pension scheme:	2017 £'000	2016 £'000
Gain/(loss) on asset return	700	1,206
Experience gain on liabilities	-	91
Changes in assumptions underlying the present value of the scheme liabilities	(407)	(1,947)
Actuarial (loss)/gain recognised in statement of financial activities	293	(740)
Cumulative actuarial (loss) recognised in statement of financial activities	(3,278)	(3,571)

Changes in the present value of defined benefit obligations:	2017 £'000	2016 £'000
Opening defined benefit obligation	18,157	15,860
Interest cost	496	589
Experience gain on liabilities	-	(1)
Loss/(gain) on changes in assumptions	407	1,947
Benefits paid	(859)	(238)
Closing defined benefit obligation	18,201	18,157

Changes in the fair value of plan assets:	2017 £'000	2016 £'000
Opening plan assets	15,887	14,011
Interest on assets	439	527
Gain/(loss) on asset return	700	1,206
Contributions by employer	444	432
Benefits paid	(859)	(238)
Expenses paid by the scheme	(31)	(51)
Closing defined benefit obligation	16,580	15,887

The actual return on plan assets was £1,139k (2016: £1,665k).

The Association expects to contribute £457k to its defined benefit pension plans in the year ended 31 December 2018.

The Association also contributes to a WPP scheme. The Association's contribution to the scheme is eight per cent or ten per cent of each member's gross salary and the pension cost for the year was £378k (2016: £294k).

12. Tangible fixed assets

Group:	Freehold properties	Short leasehold properties	Equipment and furniture	Total
	£'000	£'000	£'000	£'000
Cost:				
At 1 January 2017	6,967	59	2,559	9,585
Acquisition of RAFA Housing Limited (note 30)	594	-	270	864
Additions	107	-	494	601
Disposals	(288)	-	(2)	(290)
At 31 December 2017	7,380	59	3,321	10,760
Depreciation:				
At 1 January 2017	1,590	23	1,410	3,023
Acquisition of RAFA Housing Limited (note 30)	276	-	168	444
Charge for year	131	1	273	405
Disposal	(101)	-	(2)	(103)
At 31 December 2017	1,896	24	1,849	3,769
Net book value:				
At 31 December 2017	5,484	35	1,472	6,991
At 31 December 2016	5,377	36	1,149	6,562

12. Tangible fixed assets (continued)

Association:	Freehold properties	Short leasehold properties	Equipment and furniture	Total
	£'000	£'000	£'000	£'000
Cost:				
At 1 January 2017	6,967	59	2,540	9,566
Additions	107	-	461	568
Disposals	(288)	-	-	(288)
At 31 December 2017	6,786	59	3,001	9,846
Depreciation:				
At 1 January 2017	1,590	23	1,391	3,004
Charge for year	134	1	247	382
Disposal	(109)	-	-	(109)
At 31 December 2017	1,615	24	1,638	3,277
Net book value:				
At 31 December 2017	5,171	35	1,363	6,569
At 31 December 2016	5,377	36	1,149	6,562

The costs of freehold properties are stated net of amounts received from the RAF Benevolent Fund in respect of Rothbury House and Flowerdown House. If these properties are sold at a future date, the net proceeds from the sale will be divided (50/50) between the Association and the RAF Benevolent Fund.

13. Investments

Group and Association:	Fair value		Historical cost	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Fixed assets				
Listed investments	21,470	22,252	18,700	17,619
Investment properties	949	165	165	165
Investment in joint venture	600	-	600	-
Loan to joint venture	32	32	32	32
Long term savings bond	155	-	155	-
	23,206	22,449	19,652	17,816
Fixed assets				
Listed investments	21,470	22,252	18,700	17,619
Investment properties	949	165	165	165
Loan to joint venture	32	32	32	32
Long term savings bond	155	-	155	-
	22,606	22,449	19,052	17,816

It is the Association's intention to undertake a professionally reviewed valuation of the investment properties every five years. The last professional valuation was at 30 November 2010 and was undertaken by Frank Marshall & Co, qualified chartered surveyors.

The trustees consider the valuation at 31 December 2017 to be not materially different to the 30 November 2010 valuation and the valuation is therefore the trustees' estimated fair value, but it is our intention to have this professionally valued in 2019. The basis of valuation is the open market value of the long leasehold interests in the property, subject to existing tenancies.

Movements on fair value during the year:	Listed investments £'000	Investment property £'000	Joint venture £'000	Long term savings bond £'000	Total £'000
1 January 2017	22,252	165	32	-	22,449
Additions	846	330	-	155	1,331
Disposals	(3,007)	-	-	-	(3,007)
Net investment gains	1,379	454	-	-	1,833
31 December 2017	21,470	949	32	155	22,606

The net investment gains reflect the revaluation of investments at the year end. No one investment represents more than five per cent of the portfolio by market value.

Investment of joint venture	Share of joint venture 2017	Share of joint venture 2016
Carrying value at beginning of year	-	-
Share of net income in joint venture	600	-
Carrying value at end of year	600	-

The Group holds the following interest in a jointly controlled entity:

Name of undertaking:	Class of shareholdings	Proportion of nominal value held	Nature of business
Held directly: The RAF100 Appeal	Ordinary	25%	Non-trading company

The RAF100 Appeal is a joint venture between the Association and three other charities. The Association has a 25 per cent equity shareholding and voting rights in the RAF100 Appeal. The investment is accounted for under the equity method. The registered office of The RAF100 Appeal is 67 Portland Place, London, W1B 1AR.

A summary of the Association's share of RAF100 Appeal's results is shown below:

	2017 £'000	2016 £'000
Income	610	-
Expenditure	(10)	-
Net income	600	-

The Association's share of RAF100 Appeal's assets and liabilities is as follows:

	2017 £'000	2016 £'000
Current assets	630	-
Current liabilities	(30)	-
Net assets	600	-

The Association holds an investment of £100 (2016: £100) representing the entire ordinary share capital of its subsidiary, RAFATRAD Limited which is eliminated in the group consolidation.

13. Investments (continued)

Overseas investments	Branch deposit fund	Branch deposit fund - Formby Branch	Total
	£'000	£'000	£'000
2017:			
North America	-	119	119
European	-	32	32
Asia Pacific	-	-	-
Emerging market	165	-	165
Global	118	63	181
	283	214	497
2016:			
North America	97	72	169
European	-	-	-
Asia Pacific	-	-	-
Emerging market	167	-	167
Global	93	-	93
	357	72	429

Group and Association:	2017 £'000	2016 £'000
Net gains on investment assets		
Net gains on fixed assets investments	1,379	2,358
Net gains on investment properties	454	-
Net gains on current asset investments - Kaupthing Singer and Friedlander distribution (see note 25)	54	93
	1,887	2,451

14. Loans to branches

Included under this heading is an amount of £14,241 (2016: £4,380) falling due within one year.

15. Debtors: amounts falling due within one year

	Group		Association	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Trade debtors	65	25	-	-
Amounts due from subsidiary company	-	-	251	130
Prepayments and accrued income	472	421	464	411
Other debtors	47	121	32	64
	584	567	747	605

16. Creditors: amounts falling due within one year

	Group		Association	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Taxation and social security costs	126	126	126	108
Other creditors	239	256	217	208
Accruals and deferred income	1,217	1,152	1,205	1,151
Deposits by branches	1,036	1,021	1,036	1,021
Formby Branch	967	955	967	955
	3,585	3,510	3,551	3,443

Deposits by branches are held in a separate portfolio of investments comprising UK listed investments and cash deposits, managed by Rathbones Investment Management Limited.

The amounts included in accruals and deferred income can be analysed as follows:

	Group		Association	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Accruals	510	378	508	377
Due to branches	8	186	8	186
Due to third parties	5	329	401	329
Deferred income	298	259	293	259
	821	1,152	1,205	1,151

Included in accruals is an amount of £49k (2016: £38k) in respect of unpaid pension contributions.

16. Creditors: amounts falling due within one year (continued)

	£'000
Movement in deferred income:	
2017 opening balance	259
Release during the year	(259)
2017 donations and subscriptions in advance	298
2017 Closing balance	298

Deferred income comprises membership subscription income in advance (£240k) and donations in advance (£58k).

17. Creditors: amounts falling due after more than one year

	Group		Association	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Deferred income - capital grant	288	-	-	-
2017 Closing balance	288	-	-	-

18. Operating lease commitments

The total future minimum lease payments under non-cancellable operating leases are set out below:

	Group		Association	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Equipment:				
Due within one year	25	28	25	25
Due between two and five years	39	68	39	64
Land and buildings:				
Due within one year	25	34	17	21
Due between two and five years	32	32	-	-
Due greater than five years	30	38	-	-
	151	200	81	110

19. Restricted funds

Group and Association:	At 1 January 2017	Income	Expenditure	Transfers	At 31 December 2017
	£'000	£'000	£'000	£'000	£'000
Eastern area chalet fund	68	16	(2)	-	82
Homes refurbishment	151	-	-	-	151
Richard Peck House	50	18	(17)	-	51
Flowerdown House	37	10	(2)	-	45
Rothbury House	41	12	(23)	-	30
Richard Peck House stairlift	11	-	-	-	11
Respite care and welfare	346	115	(70)	-	391
Sussexdown residents' fund	60	-	-	-	60
Ivor Conway	90	-	(4)	-	86
Scottish development fund	16	9	(5)	-	20
Talking Air Mail	6	5	-	-	11
Preston office	12	23	(1)	-	34
Forces in Mind Trust	8	11	(19)	-	-
Storybook Wings	1	2	-	-	3
RAF Benevolent Fund grants	-	1,188	(1,132)	-	56
Libor	-	153	(18)	-	135
Vehicle fund for areas	-	35	-	-	35
Volunteer welfare officers	-	10	-	-	10
Wexford House	-	33	(15)	-	18
Befriending	-	127	(54)	-	73
Other restricted funds	36	1	(1)	-	36
	933	1,768	(1,363)	-	1,338

Group and Association:	At 1 January 2016	Income	Expenditure	Transfers	At 31 December 2016
	£'000	£'000	£'000	£'000	£'000
Eastern area chalet fund	36	7	-	25	68
Homes refurbishment	187	-	-	(36)	151
Richard Peck House	-	50	-	-	50
Flowerdown House	-	41	(4)	-	37
Rothbury House	-	41	-	-	41
Richard Peck House stairlift	11	-	-	-	11
Respite care and welfare	404	116	(178)	4	346
Sussexdown residents' fund	60	-	-	-	60
Ivor Conway	86	4	-	-	90
Scottish development fund	-	7	(13)	22	16
Talking Air Mail	-	6	-	-	6
Preston office	-	86	(74)	-	12
Forces in Mind Trust	-	11	(3)	-	8
Storybook Wings	-	1	-	-	1
Other restricted funds	34	-	(5)	7	36
	818	370	(277)	22	933

19. Restricted funds (continued)

The purpose of each fund is as stated above except for the respite care and welfare fund which represents an aggregation of each area's respite care funds which have the common purpose of contributing towards welfare breaks for eligible individuals.

20. Designated funds

Group and Association:	At 1 January 2017 £'000	Income £'000	Expenditure £'000	Transfers £'000	At 31 December 2017 £'000
Heritage fund	1,205	-	-	(1,205)	-
Council projects	18	-	-	-	18
Other projects	413	-	-	-	413
Fixed assets	6,562	-	-	(2,000)	4,562
Homes review	86	-	-	-	86
Membership innovation	346	-	-	-	346
Investment fund	4,200	-	-	-	4,200
Homes fund	1,500	-	-	-	1,500
Investment in strategic growth fund	3,250	-	-	-	3,250
Welfare fund	1,000	-	-	-	1,000
Property repairs and maintenance	-	-	-	5,000	5,000
	18,580	-	-	1,795	20,375

Group and Association:	At 1 January 2016 £'000	Income £'000	Expenditure £'000	Transfers £'000	At 31 December 2016 £'000
Heritage fund	1,205	-	-	-	1,205
Council projects	18	-	-	-	18
Other projects	22	-	-	(22)	-
Fixed assets	413	-	-	-	413
Homes review	5,892	-	-	670	6,562
Membership innovation	86	-	-	-	86
Investment fund	346	-	-	-	346
Homes fund	-	-	-	4,200	4,200
Investment in strategic growth fund	-	-	-	1,500	1,500
Welfare fund	-	-	-	3,250	3,250
Property repairs and maintenance	-	-	-	1,000	1,000
	7,982	-	-	10,598	18,580

20. Designated funds (continued)

In support of the 2020 direction, the Association has approved a number of designated funds. The heritage fund was set aside to maintain the aims and ethos of the Association and, as this is thought to be at the centre of the 2020 direction of travel, this fund has been undesignated and now features as part of general undesignated reserves and therefore business as usual. Funds have been set aside under 'other projects' for expenditure on one-off welfare grants to projects such as contact houses.

The fixed assets reserve has been reviewed and is the amount required to fund the none property assets used by the charity in the delivery of its charitable objectives. The homes review fund is to take forward measures to improve the business operation of the three respite homes and membership innovation is for the development of measures to sustain membership. During 2017, a new property fund of £5 million was created in recognition of the significant ongoing investment requirement in property assets and was agreed by Council in September 2017.

The investments fund is a prudent sum to cover unforeseen fluctuations in the value of holdings following Brexit and to accommodate a natural correction following the recent increase in the portfolio. The homes fund is £1.5 million to cover the estimated value of the RAF Benevolent Fund share of Rothbury and Flowerdown.

The investment projects fund is £3.25 million to cover the development and re-engineering of core systems as well as the achievement of long term growth and sustainability through investment in people and infrastructure. The welfare fund is £1 million to cover the growing but unquantifiable welfare demand.

21. Analysis of net assets between funds

Group:	Unrestricted funds £'000	Restricted funds £'000	Total funds £'000
Funds balances at 31 December 2017 are represented by:			
Tangible fixed assets	6,991	-	6,991
Investments	23,206	-	23,206
Loans to branches	152	-	152
Current assets	6,755	1,338	8,093
Current liabilities	(3,585)	-	(3,585)
Creditors due after one year	(288)	-	(288)
Pension provision	(1,621)	-	(1,621)
Total net assets	31,610	1,338	32,948

21. Analysis of net assets between funds (continued)

Association:	Unrestricted funds £'000	Restricted funds £'000	Total funds £'000
Funds balances at 31 December 2017 are represented by:			
Tangible fixed assets	6,569	-	6,569
Investments	22,606	-	22,606
Loans to branches	152	-	152
Current assets	6,424	1,338	7,762
Current liabilities	(3,551)	-	(3,551)
Pension provision	(1,621)	-	(1,621)
Total net assets	30,579	1,338	31,917

Group:	Unrestricted funds £'000	Restricted funds £'000	Total funds £'000
Funds balances at 31 December 2016 are represented by:			
Tangible fixed assets	6,562	-	6,562
Investments	22,449	-	22,449
Loans to branches	137	-	137
Current assets	6,073	933	7,006
Current liabilities	(3,510)	-	(3,510)
Pension provision	(2,270)	-	(2,270)
Total net assets	29,441	933	30,374

Association:	Unrestricted funds £'000	Restricted funds £'000	Total funds £'000
Funds balances at 31 December 2016 are represented by:			
Tangible fixed assets	6,562	-	6,562
Investments	22,449	-	22,449
Loans to branches	137	-	137
Current assets	5,926	933	6,859
Current liabilities	(3,443)	-	(3,443)
Pension provision	(2,270)	-	(2,270)
Total net assets	29,361	933	30,294

22. Reconciliation of net income to net cash inflow from operating activities

	Group		Association	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Net income	2,281	3,563	1,330	3,563
Adjustments for:				
Net gain on acquisition of RAFA Housing Limited	(427)	-	-	-
Share of joint venture	(600)	-	-	-
Contributions to defined benefit scheme	(444)	(432)	(444)	(432)
Expenses borne by pension scheme	31	51	31	51
Depreciation charges	405	341	382	340
Loss on disposal of fixed assets	187	-	179	-
Gains on investments	(1,887)	(2,358)	(1,887)	(2,358)
Profit on disposal of fixed assets	-	(310)	-	(310)
Investment income	(1,008)	(701)	(1,008)	(701)
Return on defined benefit scheme assets	(439)	(527)	(439)	(527)
Interest paid	2	3	2	3
Interest on defined benefit pension liabilities	496	589	496	589
(Increase)/decrease in stocks	(3)	(53)	1	2
(Increase)/decrease in debtors	(17)	26	(142)	55
Increase in creditors	37	227	93	188
Net cash provided by operating activities	(1,386)	419	(1,406)	463

23. Cash and cash equivalents

	Group		Association	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Cash and cash equivalents represent:				
Cash at bank	3,541	5,006	3,189	4,959
Cash held by investment managers	3,817	1,285	3,817	1,285
	7,358	6,291	7,006	6,244

24. Legacies

The Association is aware of a number of legacies to be received due to the legacy pipeline information but these are difficult to quantify as the monetary value is uncertain and cannot be established.

25. Contingent asset

The Association has recovered 85.5p in the pound in respect of its claim in the Kaupthing Singer & Friedlander Administration. The administrators currently estimate that total distributions to unsecured creditors should be a maximum of 86.5p in the pound. The asset is not recognised in the accounts as there is no certainty regarding the amount and timing of future distributions.

26. Related party transactions

The branches forwarded Wings Appeal income of £1,193k (2016: £1,176k) to the Association which is included in Wings Appeal income. The Association returned £152k (2016: £176k) to the branches for them to use for their own welfare funds which is included in expenditure. In addition £9,038 (2016: £18,577) was paid to the branches in respect of Wings Appeal expenditure and these expenses are included in the cost of raising funds.

Membership subscription rebates of £170k (2016: £135k) to be paid to branches are included in expenditure.

The Association paid interest of £2,437 (2016: £3,473) to the branches holding deposit accounts with the Association (see note 16). The Association received interest of £925 (2016: £996) from branches that have received loans from the Association (see note 14).

27. Cash and cash equivalents

The carrying amount of the group's and association's financial instruments at 31 December were:

	Group		Association	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Financial assets:				
Debt instruments measured at amortised cost	586	283	757	616
Equity instruments measured at fair value through net income / expenditure	22,420	22,417	21,470	22,252
	23,006	22,700	22,227	22,868
Financial liabilities				
Debt instruments measured at amortised cost	2,677	3,125	3,132	3,076

28. Analysis of statement of financial activities for the year ended 31 December 2016 by fund type

All of the income and the expenditure in the statement of financial activities for the year ended 31 December 2016 was unrestricted with the exception of £370k of income and £277k of expenditure, which was restricted.

29. Post balance sheet events

There were no significant events arising after the balance sheet date.

30. Acquisition of RAFA Housing Limited

On 1 January 2017, the Association acquired the share capital of RAFA Housing Limited for £nil consideration.

The substance of the acquisition is that of a gift and it has been accounted for on that basis. The assets and liabilities acquired were valued at their fair value and recognised in the balance sheet under the appropriate headings with a corresponding net amount in the statement of financial activities.

The following table sets out the fair values of the identifiable assets and liabilities acquired:

	Fair value £'000
Tangible fixed assets	421
Debtors	8
Cash at bank	318
Creditors less than one year	(32)
Creditors more than one year	(288)
Net assets	427



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