

NATIONAL HERITAGE MEMORIAL FUND

ANNUAL REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 2005

Annual Report

This has been prepared in accordance with section 7(1) of the National Heritage Act 1980
by the Secretary of State for Culture, Media and Sport.

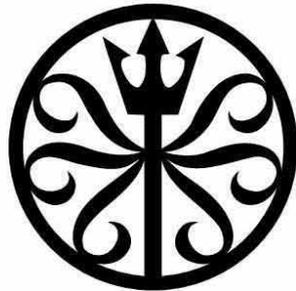
Annual Accounts

These have been prepared in accordance with section 7(3) of the National Heritage Act 1980 and
presented by the Comptroller and Auditor General.

ORDERED BY THE HOUSE OF COMMONS TO BE PRINTED 18 JULY 2005

LAID BEFORE THE SCOTTISH PARLIAMENT BY THE SCOTTISH MINISTERS 19 JULY 2005

National Heritage Memorial Fund



A N N U A L A C C O U N T S

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Foreword

Background Information

The National Heritage Memorial Fund (NHMF) is vested in and administered by a body corporate known as the Trustees of the National Heritage Memorial Fund: consisting of a Chair and not more than 14 other members appointed by the Prime Minister. The Fund was set up on 1 April 1980 by the National Heritage Act 1980 ("the 1980 Act") in succession to the National Land Fund as a memorial to those who have given their lives for the United Kingdom. The powers of the Trustees and their responsibilities were extended by the provisions of the National Lottery etc. Act 1993 (the "1993 Act"), the National Heritage Act 1997 (the "1997 Act") and the National Lottery Act 1998 (the "1998 Act").

Under the 1993 Act, Trustees became responsible for the distribution of that proportion of the National Lottery proceeds allocated to the heritage. Trustees of the National Heritage Memorial Fund have to prepare separate accounts for the receipt and allocation of grant-in-aid and for their operation as a distributor of National Lottery funds. Trustees have chosen to refer to the funds as the National Heritage Memorial Fund for sums allocated under the provisions of the 1980 Act and the Heritage Lottery Fund for the receipts under the provisions of the 1993 Act.

Under section 3 of the 1980 Act, Trustees may make grants and loans out of the National Heritage Memorial Fund for the purpose of acquiring, maintaining or preserving, inter alia:

- (a) any land, building or structure which in the opinion of the Trustees is of outstanding scenic, historic, aesthetic, architectural, archaeological or scientific interest;
- (b) any object which in their opinion is of outstanding historic, artistic or scientific interest;
- (c) any collection or group of objects, being a collection or group which taken as a whole is in their opinion of outstanding historic, artistic or scientific interest.

Section 4 of the 1993 Act extends the powers of Trustees to improving the display of items of outstanding interest to the national heritage by providing financial assistance to construct, convert or improve any building in order to provide facilities designed to promote the public's enjoyment or advance the public's knowledge.

Under the 1993 Act and the 1997 Act, Trustees are now also able to assist projects directed to increasing public understanding and enjoyment of the heritage and to interpreting and recording important aspects of the nation's history, natural history and landscape. Trustees propose to use these extended powers primarily in connection with the Heritage Lottery Fund. Trustees believe that the National Heritage Memorial Fund has a vital role as the central bulwark in the nation's defence of items of outstanding importance which are at risk. Trustees will continue to use the resources provided by Government, as well as resources generated by its endowment fund, to offer financial assistance as a fund of last resort towards the acquisition, preservation and maintenance of heritage which is threatened by destruction or loss.

Review of activities

Six awards were made in the year. The grant awards made included:

- £934,115 to the Memorial for the Women of World War II;
- £105,535 to the National Portrait Gallery for the portrait of Thomas Howard;
- £110,000 to the Beckford Tower Trust for the acquisition of the Beckford Table;
- £860,000 to the Fitzwilliam Museum, Cambridge, for the purchase of the Macclesfield Psalter, whose export from the UK had been deferred;
- £500,000 to the Victoria and Albert Museum for the conservation of furniture and tapestries belonging to the Museum at Houghton Hall, Norfolk;
- £250,000 to the Royal Academy of Music for the purchase of the "Viotti" Stradivarius violin.

Grant payments were made to 10 different heritage projects during the year, including to purchase the items in the list above. In addition, payments were made in respect of awards made in earlier years as follows:

- Foundling Museum, in London, to purchase a painting by Hogarth and to fund an endowment.
- The Bodleian Library, Oxford, to buy the Abinger papers.
- The Imperial War Museum, in London, to fund the Cabinet War Rooms.
- The National Railway Museum, in York, to purchase the Flying Scotsman.

2 Annual Report

The award of £934,115 to establish the memorial to the part played by 7 million women, in the UK and allied countries, in World War II was seen as a fitting, if unusual and exceptional, use of NHMF. In making this award, which would help create the new memorial in Whitehall on the very significant 60th anniversary of the ending of the conflict, NHMF recognised that this would be a national memorial to a nation-wide contribution, rather than an association with an individual, service-arm, location or battle.

The purchase of the Macclesfield Psalter, a 14th century devotional pocket book thought to have been created in East Anglia, was the culmination of a successful campaign to keep this treasured volume – little known until recently – in the UK. The Fitzwilliam Museum had previously made an unsuccessful bid to the Heritage Lottery Fund for a grant which would have enabled them to bid at auction, and the Psalter was sold to a foreign purchaser. But the application for the Psalter's Export was stopped by the Department for Culture, Media and Sport to give a UK institution the opportunity to make an offer to match the price paid at auction. With a public campaign, led by the Fitzwilliam itself and the National Art Collections Fund, the purchase price was matched. NHMF's contribution was half of the sum needed.

The Board also considered applications during the year from a number of other bodies, one of which was the request for £2,371,000 from the United Kingdom Antarctic Heritage Trust towards the restoration of one of the huts used by Sir Ernest Shackleton in his expedition of 1907–1909 in the Ross Sea area of Antarctica. Despite the national and international heritage importance of this site and the expeditions, NHMF declined to support the application because it would have entailed the use of the Fund outside the UK in a way that would expose NHMF to applications from many parts of the world with heritage that has a link to the UK's past.

Financial Review

NHMF received grant-in-aid of £5m, the same as in 2003/4. During the year, NHMF made awards totalling £2.76 million, and made grant payments which totalled £7.03 million. Outstanding grant commitments at the end of the year amounted to £3.6 million.

As reported last year, in 2002/3, a significant part of the NHMF endowment was used to fund the National Trust's purchase of the Tynesfield Estate. This used up the entire surplus in the fund and ate into the capital. It was decided not to replenish immediately the endowment fund from the annual grant-in-aid. At the end of the year the endowment was worth £25.89 million, which is only £3.77 million below the value at today's prices of the original £10 million capital investment.

In the 2004 Comprehensive Spending Review, DCMS committed to doubling the grant-in-aid to NHMF to £10 million in 2007/8. This is substantially less than the £20 million per annum figure recommended by Sir Nicholas Goodison's Report in early 2004, but will be a welcome increase in funds to enable NHMF, now 25 years old, to continue its work of saving treasures for the nation.

Appointment of auditors

The National Heritage Act 1980 provides for the annual accounts of the National Heritage Memorial Fund to be audited by the Comptroller and Auditor General.

Employee Consultation

The nature of the operations of the Fund means that grant application processing staff work closely with Trustees. Staff are involved in project evaluation and applicant visits with Trustees. Many members of staff attend meetings of Trustees, which enables them to be aware of thinking about the development of the Fund and its operations. Additionally, senior management ensures, through summaries of Management Group meetings in the weekly Newsletter, face-to-face meetings and a high level of personal accessibility, that matters of concern to all staff can be readily addressed. It is essential that all staff are given the opportunity to contribute to the development of the Fund as well as achieving their own potential through regular consultation and discussion. To this end, a Staff Council is in existence. Comprising representatives from each department, it discusses matters of interest to staff with representatives from management. It meets nine times a year.

Equal opportunities

As an employer, the National Heritage Memorial Fund abides by equal opportunities legislation. It does not discriminate against staff or eligible applicants for job vacancies on the grounds of gender, marital status, race, colour, nationality, ethnic origin, religious belief, disability, age or sexual orientation. Every possible step is taken to ensure that staff are treated equally and fairly and that decisions on recruitment, selection, training, promotion and career management are based solely on objective and job related criteria. It does not tolerate any form of discrimination, harassment or victimisation. All staff are required to co-operate in making this policy work effectively.

Creditors

The National Heritage Memorial Fund adheres to the Government-wide standard on bill-paying and the CBI Better Payment Practice Code, which is to settle all valid bills within 30 days. In 2004/05, the average age of invoices paid was 12 working days. Over 89% of invoices were paid within 30 calendar days.

Euro

The activities of the National Heritage Memorial Fund are entirely within the United Kingdom. Although some exposure to transactions denominated in the euro may occur, these will be treated no differently from transactions in any foreign currency. Therefore, at present, the euro has no impact on the systems of the National Heritage Memorial Fund.

Statement of Trustees' and Director's Responsibilities

Under section 7(2) of the National Heritage Act 1980, Trustees of the National Heritage Memorial Fund are required to prepare a statement of accounts for each financial year in the form and on the basis determined by the Secretary of State for Culture, Media and Sport with the consent of the Treasury. The accounts are prepared on an accruals basis and must give a true and fair view of the Fund's state of affairs at the year end, of its recognised gains and losses and of its income and expenditure and cash flows for the financial year.

In preparing the accounts Trustees of the National Heritage Memorial Fund are required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- observe the accounts direction issued by the Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards, as set out in the Government Financial Reporting Manual, have been followed and disclose and explain any material departures in the financial statements;
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Fund will continue in operation.

The Accounting Officer of the Department for Culture, Media and Sport has appointed the senior full-time official, the Director, as the Accounting Officer for the Fund. Her relevant responsibilities as Accounting Officer, including her responsibility for the propriety and regularity of the public finances, for the safeguarding of the Fund's assets and for the keeping of proper records, are set out in the Non-Departmental Public Bodies' Accounting Officers' Memorandum, issued by the Treasury and published in Government Accounting.

MRS CAROLE SOUTER
DIRECTOR

MS LIZ FORGAN
CHAIR
JULY 2005

4 Statement on Internal Control

Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the National Heritage Memorial Fund's policies, aims and objectives, whilst safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

I work closely with the Trustees of the National Heritage Memorial Fund ("NHMF") who share a responsibility to:

- Give leadership and strategic direction;
- Define control mechanisms to safeguard public resources;
- Supervise the overall management of NHMF's activities;
- Report on the stewardship of public funds.

This responsibility is enacted through regular meetings of Trustees with senior management to set policy for the NHMF and make decisions in line with policy. In addition, sub-committees of Trustees, particularly the Finance & Investment Committee and the Audit Committee, oversee the activities of management and provide support. All policy setting and grant decision making is informed by the risk management culture of the NHMF. In particular, the Audit Committee regularly discusses the risk reports produced by management and questions them about the methods by which they mitigate risk. In addition, the NHMF is a member of the Lottery Forum Risk Management Group. This group, comprising representatives of Lottery distributors, has created a common risk framework.

The annual operating plan of the NHMF – the Business Plan – is discussed with our sponsor department, the Department for Culture, Media and Sport. We also operate in line with an agreed Management Statement and Financial Memorandum based upon a template devised by the Treasury. This includes regular meetings with senior officers of the Department and with fellow Lottery distributors.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the NHMF's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Fund for the year ended 31 March 2005 and up to the date of approval of the annual report and accounts and accords with Treasury guidance.

Capacity to handle risk

The Management Group, comprising the most senior managers of the NHMF, takes the lead on all aspects of risk management. It appoints risk owners and charges them with the creation and application of strategies to mitigate the risk under their control.

The Audit Committee, which comprises three Trustees, regularly discusses the risk management process and reports back to the main body of Trustees on the management of risk. Furthermore, both internal and external audit review the risk management processes as part of their work and can provide the benefit of their experience of other organisations' risk management activities.

Staff, from middle management upwards, have received training in risk management techniques from the Civil Service College.

The risk and control framework

Management Group devised a risk management statement that details how the NHMF identifies, monitors and controls risks and opportunities. This statement is reviewed regularly. On an annual basis, risks are categorised by considering the likelihood of occurrence should no risk mitigation activity occur and the impact should the risk happen. The risks where the potential impact is deemed high form the NHMF risk register. Management Group then assigns to senior managers (the "risk owners") the task of putting procedures in place to monitor and, where possible, mitigate the risk. Management Group reviews the effectiveness of their work on a quarterly basis. The Audit Committee also regularly reviews and questions the activities of risk owners.

In 2004/05, the NHMF considered the following to be the most significant areas of risk:

- that our income declines, including through a loss of reputation;
- that grants awarded fail to meet our strategic objectives;
- that our heritage aims are not supported by adequate evidence, research and evaluation;
- failure to set and follow efficient procedures correctly or consistently giving rise to the risk of fraud or of making perverse decisions open to challenge in law;

Statement on Internal Control

- failure to recruit and retain staff of sufficient calibre;
- inconsistency of message throughout the spread of regional and country offices;
- that we do not take full advantage of profile, advocacy and media opportunities offered by strengthened local presence.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and senior management within the NHMF who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I received guidance from both the Board and the Audit Committee, which sees reports from both the internal and external auditors, and a plan to address weaknesses and ensure continuous improvement of the internal control systems is in place.

All reports of the internal auditors are discussed by the Audit Committee with senior members of staff in attendance. Heads of departments that have failings identified by the internal auditors are required to devise a corrective action and set a completion date for that action in consultation with the internal auditors. I receive a regular report from the auditors notifying me of the progress my department heads have achieved in clearing up points raised by both internal and external auditors.

As a result of the above, there is nothing of which I am aware that leads me to believe that our systems for detecting and responding to inefficiency, for preventing conflicts of interest, for preventing and detecting fraud and for minimising losses of grant-in-aid and Lottery grant are not adequate.

MRS CAROL SOUTER
DIRECTOR
JULY 2005

The Certificate and Report of the Comptroller and Auditor General on the accounts of the respective body

I certify that I have audited the financial statements on pages 7 to 20 under the National Heritage Act 1980. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on page 10.

Respective responsibilities of the Trustees, the Director and Auditor

The Trustees and the Director are responsible for the preparation of the financial statements in accordance with the National Heritage Act 1980 and directions made thereunder by the Secretary of State for Culture, Media and Sport, as agreed by HM Treasury, and for ensuring the regularity of financial transactions. The Trustees and the Director are also responsible for the preparation of the Foreword and other contents of the Annual Report. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the National Heritage Act 1980 and directions made thereunder by the Secretary of State, and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Trustees of the National Heritage Memorial Fund have not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

I review whether the statement on pages 4 and 5 reflects the National Heritage Memorial Fund's compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the National Heritage Memorial Fund's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Trustees and Director in the preparation of the financial statements, and of whether the accounting policies are appropriate to the National Heritage Memorial Fund's circumstances, consistently applied and adequately disclosed.

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

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the Trustees of the National Heritage Memorial Fund at 31 March 2005 and of the deficit, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the National Heritage Act 1980 and directions made thereunder by the Secretary of State as agreed by HM Treasury; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

JOHN BOURN
COMPTROLLER AND AUDITOR GENERAL

JULY 2005

NATIONAL AUDIT OFFICE
157–197 BUCKINGHAM PALACE ROAD
VICTORIA
LONDON SW1W 9SP

Income and expenditure account for the year ended 31 March 2005

	Notes	£000	2004/05 £000	2003/04 £000
Grant-in-aid	2	5,000		5,000
Other operating income	3	75		0
Operating income			5,075	5,000
New awards made in the year	15	(2,760)		(7,830)
De-committed awards	15	332		0
			(2,428)	(7,830)
Staff costs	4	(47)		(44)
Underprovision of pension costs	5	0		(177)
Depreciation	10	(3)		(2)
Other operating charges	6	(120)		(92)
			(170)	(315)
Operating expenditure			(2,598)	(8,145)
Operating surplus/(deficit)			2,477	(3,145)
Income from investments	7	643		782
Profit on the sale of investments	8	128		1,175
Grant-in-aid for pension transfers	2 & 5	0		177
Interest receivable	9	57		17
Non-operating income			828	2,151
Net surplus/(deficit) before notional costs			3,305	(994)
Notional costs – capital	18		(698)	(562)
Net surplus/(deficit) including notional costs			2,607	(1,556)
Reversal of notional costs			698	562
Surplus/(deficit) transferred to the accumulated fund			3,305	(994)
Accumulated fund brought forward			13,723	14,717
Accumulated fund carried forward			17,028	13,723

Statement of total recognised gains and losses for the year ended 31 March 2005

	Note	2004/05 £000	2003/04 £000
Net surplus/(deficit) on income and expenditure account		3,305	(994)
Movement on revaluation reserve	21	2,270	3,208
		5,575	2,214

The income and expenditure account excludes the Lottery activities of the National Heritage Memorial Fund, which are separately reported in the accounts of the *Heritage Lottery Fund*. All figures shown relate to continuing activities. The notes on pages 10 to 20 form part of the accounts.

8 Balance Sheet as at 31 March 2005

	Notes	2004/05 £000	2003/04 £000
Fixed Assets			
Tangible Fixed Assets	10	6	7
Investments	11	25,320	22,616
		25,326	22,623
Current Assets			
Debtors	12	4	14
Investments	13	0	2,066
Cash in hand and at Barclay's		507	92
Cash at JP Morgan Chase Bank	11	568	788
		1,079	2,960
Creditors: amounts falling due within one year	14	(67)	(221)
Grant commitments due within one year	15	(3,599)	(6,898)
Net Current Assets		(2,587)	(4,159)
Provisions for liabilities and charges			
Pensions and similar liabilities	5	(1)	(1)
Grant commitments due after more than one year	15	0	(1,300)
Total net assets		22,738	17,163
Revaluation reserve	21	5,710	3,440
Accumulated Fund			
Accumulated fund brought forward		13,723	14,717
Result for the year		3,305	(994)
Accumulated fund carried forward		17,028	13,723
		22,738	17,163

This statement excludes balances relating to the Lottery activities of the National Heritage Memorial Fund which are separately disclosed in the accounts of the Heritage Lottery Fund.

The notes on pages 10 to 20 form part of the accounts.

MRS CAROLE SOUTER
DIRECTOR

MS LIZ FORGAN
CHAIR
JULY 2005

Cashflow statement for the year ended 31 March 2005

	Notes	2004/05 £000	2003/04 £000
Operating Activities			
Grant-in-aid received	2	5,000	5,727
Cash from other sources	3	75	0
Cash paid to and on behalf of employees		(48)	(44)
Cash paid to suppliers		(272)	(278)
Cash paid to grant recipients	15	(7,027)	(5,996)
Net cash outflow from operating activities	17a	(2,272)	(591)
Returns on investment and servicing of finance			
Interest received		57	17
Dividends received		646	900
Net cash inflow from returns on investments		703	917
Capital expenditure and financial investment	17b	(302)	(933)
Cash flow before management of liquid resources		(1,871)	(607)
Management of liquid resources	17c	2,066	(517)
Increase/(decrease) in cash		195	(1,124)
Reconciliation of net cash flow to movement in net funds			
Increase/(decrease) in cash in the period	17d	195	(1,124)
Cash used to increase liquid resources	17c	(2,066)	517
Other movements	17d	0	(38)
Changes in net funds		(1,871)	(645)
Net funds at 1 April 2004		2,946	3,591
Net funds at 31 March 2005		1,075	2,946

The notes on pages 10 to 20 form part of the accounts.

10 Notes to the Accounts for the year ended 31 March 2005**Statement of Accounting Policies****a) Accounting convention**

These accounts are drawn up in a form directed by the Secretary of State and approved by the Treasury. They are prepared under the modified historic cost convention. Without limiting the information given, the accounts meet the accounting and disclosure requirements of the Companies Act 1985, the Statements of Standard Accounting Practice issued by the member bodies of the Consultative Committee of Accountancy Bodies, so far as those requirements are appropriate, and Accounts Directions issued by the Secretary of State for Culture, Media and Sport in October 2002. The National Lottery Accounts Direction issued by the Secretary of State specifically excludes the preparation of consolidated accounts. Copies of the Lottery and Memorial Accounts Directions may be obtained from the Secretary to the Trustees, 7 Holbein Place, London SW1W 8NR.

b) Government grants

Government grants are credited to income in the year of receipt. No allocation is made between grants for revenue and capital purposes.

c) Fixed assets

Depreciation is provided on a straight line basis on all tangible fixed assets, including those held under finance leases, other than certain items of heritage, at rates calculated to write-off the cost or valuation of each asset over its expected useful life. These lives are as follows:

short leasehold property	–	the life of the lease.
office equipment	–	4–10 years
office fittings	–	4–10 years

d) Investments

Fixed asset investments are included in the accounts at current cost. Current asset investments are shown at the lower of cost and net realisable value. Realised gains and losses are included in the income and expenditure account and are calculated as the difference between sales proceeds and historic cost. Unrealised gains and losses on fixed asset investments are reflected in the revaluation reserve and statement of recognised gains and losses. Unrealised gains on current asset investments are reflected in the revaluation reserve and statement of recognised gains and losses; however, unrealised losses are reflected in the income and expenditure account.

e) Allocation of costs

The operations of the National Heritage Memorial Fund are split into two funds – the National Heritage Memorial Fund and the Heritage Lottery Fund – reflecting the two sources of income. The National Heritage Memorial Fund incurs indirect costs which are shared between activities funded by grant-in-aid and activities funded by the National Lottery. The National Heritage Memorial Fund is required to apportion these indirect costs in accordance with the Fees and Charges Guide issued by HM Treasury. This cost apportionment seeks to reflect the specific proportion of time and expenses committed to each fund. From 1 April 2002, all activities of the National Heritage Memorial Fund were transferred to Holbein Place, London. Consequently, the costs of operating all other offices is fully recharged to the Heritage Lottery Fund. The results of the Heritage Lottery Fund are reported in a separate set of accounts.

f) Taxation

No provision is made for general taxation as the National Heritage Memorial Fund is statutorily exempt. The National Heritage Memorial Fund is unable to recover Value Added Tax charged to it and the VAT inclusive cost is included under the relevant expenditure heads.

g) Pension

The regular cost of providing benefits is charged to the income and expenditure account over the service lives of the members of the scheme on the basis of a constant percentage of pensionable pay. The majority of staff are members of PCSPS and the percentage of pensionable pay is notified by the Cabinet Office at the start of each financial year.

h) Leases

The annual rentals on operating leases are charged to the income and expenditure account on a straight-line basis over the term of the lease.

2. Grant-in-aid

	2004/05	2003/04
	£000	£000
Grant from the Department for Culture, Media and Sport	5,000	5,000
Grant-in-aid for pension transfers (see note 5)	0	177
	5,000	5,177

3. Other operating income

This comprises two donations. £49,929 received from the estate of the late Marian Dobree and £25,000 from the estate of the late Lady Rook.

4. Staff costs and numbers

	2004/05 £000	2003/04 £000
Salaries	37	34
Employer's NI payments	3	3
Payments to pension scheme (see note 4)	5	5
Temporary staff costs	2	2
	47	44

Additional costs of £9,513,000 have been charged to the Heritage Lottery Fund and are reflected in the accounts of that Fund.

Remuneration of the Chair and Trustees

All Trustees were entitled to receive an annual salary for the time spent on the activities of the National Heritage Memorial Fund. In addition, the National Heritage Memorial Fund re-imbursed travel expenses of certain Trustees from their homes to their office of employment in London, Edinburgh, Cardiff or Belfast. The National Heritage Memorial Fund met the tax liability on these expenses. All Trustees have three-year appointments, potentially renewable for a second term. They are appointed by the Prime Minister. They are not members of the pension scheme utilised by the National Heritage Memorial Fund. No contributions were made by the Fund to a pension scheme on the Trustees' behalf. All Trustees' remuneration was allocated between the Heritage Lottery Fund and the National Heritage Memorial Fund on the basis of 99%:1%. The total remuneration of Trustees in 2004/5 was £187,020 (2003/4 £183,132).

The remuneration of those Trustees that received payment, including re-imbursment of taxable expenses and the tax thereon, falls into the following bands. Three Trustees waived their right to a salary.

	2004/05 £000	2003/04 £000
Ms. Liz Forgan (Chair)	40 – 45	40 – 45
Sir Angus Grossart	15 – 20	20 – 25
Tom Pritchard Esq.	20 – 25	20 – 25
Mrs. Primrose Wilson	15 – 20	15 – 20
Nicholas Dodd Esq.	10 – 15	10 – 15
Chris Baines Esq.	0 – 5	10 – 15
James Wright Esq.	10 – 15	10 – 15
Giles Waterfield Esq.	5 – 10	5 – 10
Mike Phillips Esq.	5 – 10	5 – 10
Derek Langslow Esq.	5 – 10	5 – 10
Ms. Catherine Graham-Harrison	5 – 10	5 – 10
Ms. Madhu Anjali	5 – 10	5 – 10
Ms. Sue Palmer	0	0 – 5
Earl of Dalkeith	0 – 5	5 – 10
Tristram Hunt Esq.	0	0
Matthew Saunders Esq.	0	0
Brian Lang Esq.	0 – 5	0
Mike Emmerich Esq.	10 – 15	5 – 10

12 Notes to the Accounts for the year ended 31 March 2005**4. Staff costs and numbers (continued)****Remuneration of employees**

The remuneration of directors was as follows:

	Salary including performance bonus 04–05 £000	Salary including performance bonus 03–04 £000	Real increase in pension and lump sum £000	Total accrued pension at age 60 and lump sum £000	Cash Equivalent Transfer Value (CETV) at 31.3.05 £000	Cash Equivalent Transfer Value (CETV) at 31.3.04 £000	Real increase in CETV funded by NHMF £000
Carole Souter Director	100 – 105	100 – 105	0 – 2.5 plus 2.5 – 5 lump sum	30 – 35 plus 95 – 100 lump sum	464	423	17
Stephen Johnson Director of Operations	90 – 95	85 – 90	0 – 2.5	40 – 45	626	589	7
Judy Cligman Director of Policy	70 – 75	65 – 75	0 – 2.5 plus 2.5 – 5 lump sum	15 – 20 plus 50 – 55 lump sum	238	205	18
Steve Willis Director of Resources & Planning	90 – 95	85–90	0 – 2.5 plus 5 – 7.5 lump sum	35 – 40 plus 110 – 115 lump sum	605	543	26

All senior employees had permanent contracts of employment and were ordinary members of the Principal Civil Service Pension Scheme. Their costs were allocated between the Heritage Lottery Fund and the National Heritage Memorial Fund on the basis of 99%: 1% (2003/4: 99%: 1%).

The average number of employees during the year was as follows:

	2004/05 number	2003/04 number
Grant applications	1	2
Finance and administration	0	0
Policy	0	0
Public relations	0	0
	1	2

Additionally, an average of 248 permanent staff were employed on Heritage Lottery Fund activities.

5. Pensions

Towards the end of 1999/00, the National Heritage Memorial Fund was admitted to the Principal Civil Service Pension Scheme ("PCSPS"). At that time, all current employees, with the exception of one current member of staff, were transferred to the PCSPS. Former employees, in receipt of a pension or with a preserved pension, and one current member of staff remained in the NHMF Pension Scheme. This other NHMF scheme was managed by the Joint Superannuation Services Scheme ("JSS"). The PCSPS is an unfunded multi-employer defined benefit scheme, but the NHMF is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 2003. Details can be found in the resource accounts of the Cabinet Office; Civil Superannuation (www.civilservice-pensions.gov.uk).

Although the scheme is a defined benefit scheme, liability for payment of future benefits is a charge to the PCSPS. Departments, agencies and other bodies covered by the PCSPS meet the cost of pension cover provided for the staff they employ by payment of charges calculated on an accruing basis. For 2004/5, employer's contributions of £4,878 (2003/4: £4,855) were paid to the PCSPS at the rates set out in the table below. Employer contributions are to be reviewed every four years following a full scheme valuation by the scheme Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Pension benefits are provided through the PCSPS. From October 2002, staff who are members of the scheme can be in one of three statutory based "final salary" defined benefit schemes (classic, premium, and classic plus). New entrants after September 2002 may choose between membership of the premium scheme or can join a good quality "money purchase" stakeholder based arrangement with a significant employer contribution (partnership pension account). The differences between the schemes can be found on the www.civilservice-pensions.gov.uk website. No member of staff had a stakeholder-based arrangement at the end of the year. The employer's payments were calculated on the basis of salary banding, as follows. The rates in 2005/6 will be much higher and are disclosed in the table below:

Salary in 2004/5	% in 2004/05	Salary in 2005/06	% in 2005/06
£17,500 and under	12%	£18,000 and under	16.2%
£17,501 – £36,000	13.5%	£18,001 – £37,000	18.6%
£36,001 – £62,000	16.5%	£37,001 – £63,500	22.3%
£62,001 and above	18.5%	£63,501 and above	24.6%

At the year end, one member of staff was covered by provisions made by the Fund from guidance provided by JSS. JSS provides the Fund with details on the expected provisions that the Fund is required to make each year so as to enable the Fund to meet the pension liabilities that will accrue under the scheme. The last time such advice was given was 31 March 1998. The scheme is a defined benefit scheme. Payments made to retired Fund employees who remain members of the JSS scheme are paid out of the Fund's cash resources, and not through the JSS, which has no assets. As the JSS is a closed scheme, under the projected unit method the current service costs will increase as the member of the scheme approaches retirement. New employees of the National Heritage Memorial Fund do not join the JSS, but instead join the PCSPS.

In March 2003, the National Heritage Memorial Fund received confirmation from the Government Actuary that the cost of transferring its outstanding pension liabilities to the PCSPS was £5.075 million. DCMS agreed to reimburse the Fund the cost of its pension transfer to PCSPS for those liabilities relating to the National Heritage Memorial Fund. An estimate of the split between grant-in-aid and Lottery liabilities was included in the accounts for 2002/3 and payments made to PCSPS on that basis. The Government Actuary provided a split of the £5.075 million between grant-in-aid liabilities and Lottery liabilities in September 2003. This revealed that the estimate of 31 March 2003 understated the grant-in-aid liability of the Fund (estimate £550,000, actual £727,220) and hence the amount due from DCMS, by £177,220. Therefore, the National Heritage Memorial Fund had to reimburse the Heritage Lottery Fund £177,220 (as they made the original payment to PCSPS) and it received additional grant-in-aid income of £177,220.

	2004/05 £000	2003/04 £000
Provision at 1 April	1	1
Increase in provision to cover transfer to PCSPS	0	177
Re-imburement due to Heritage Lottery Fund	0	(177)
Pension payments made	0	0
Provision at 31 March	1	1

6. Operating surplus/(deficit)

The operating surplus/(deficit) is stated after charging the following:

	2004/05 £000	2003/04 £000
Auditor's remuneration	7	7
Payments under operating leases –		
leasehold premises	7	7
hire of plant and machinery	2	1

Additional costs of £12,626,000 have been charged to the Heritage Lottery Fund and are reflected in the accounts of that Fund. As disclosed in note 1 to these accounts, the National Heritage Memorial Fund is required to apportion its costs to the Heritage Lottery Fund. At the end of the financial year, the proportion of joint costs apportioned was 99% to the Heritage Lottery Fund.

14 Notes to the Accounts for the year ended 31 March 2005**6. Operating surplus/(deficit) (continued)**

An analysis of other operating charges, including the above items, is as follows:

	2004/05 £000	2003/04 £000
Accommodation	11	11
Postage and telephone	3	4
Office supplies, print and stationery	3	3
Travel, subsistence and hospitality	1	1
Professional fees – grant related	7	7
Professional fees – non-grant related	62	29
Public relations and communications	26	29
Sundry	7	8
	120	92

7. Income from investments

	Listed 2004/05 £000	Listed 2003/04 £000
Fixed asset investments	590	576
Current asset investments	53	206
	643	782

There was no income from unquoted investments.

8. Profit on the sale of investments

	Listed 2004/05 £000	Listed 2003/04 £000
Fixed asset investments	128	1,183
Current asset investments	0	(8)
	128	1,175

There were no profits or losses on the disposal of unquoted investments.

9. Interest receivable

	2004/05 £000	2003/04 £000
Bank interest received	57	17

10. Tangible fixed assets

	Improvements to Short Leasehold Property £000	Office Equipment £000	Office Fittings £000	Total £000
Cost at 1 April 2004	6	14	9	29
Additions	1	1	0	2
at 31 March 2005	7	15	9	31
Depreciation at 1 April 2004	3	10	9	22
Charge for the year	1	2	0	3
at 31 March 2005	4	12	9	25
Net book value at 31 March 2004	3	4	0	7
at 31 March 2005	3	3	0	6

The Trustees have considered the value of the fixed assets and are satisfied that their value, at 31 March 2005, was not less than their net book value shown in the accounts. The value of fixed assets represents a proportionate split of the assets used by the National Heritage Memorial Fund and the Heritage Lottery Fund. This split is currently 99% Lottery and 1% Memorial.

No fixed assets were held under finance leases.

A review of the current cost values of fixed assets, at 31 March 2005, revealed no material difference to historic cost values. Therefore, no adjustment has been made to reflect current cost values of tangible fixed assets.

11. Fixed asset investments

The National Heritage Memorial Fund was set up as successor to the National Land Fund. The Trustees believed that, of the initial grant-in-aid, the sum of £10 million should be regarded as the residue of that Fund. They decided to invest it and to maintain its capital value in real terms when compared to the Retail Prices Index. Beyond that, the investment aim is to achieve sufficient growth in real terms to enable the National Heritage Memorial Fund to meet its obligations. To this end, investment can be made outside the United Kingdom. A table below summarises the regional investment spread. The surplus value of the endowment fund (i.e. the excess over the current value of the initial £10 million) is drawn down to fund NHMF's grant-giving. At 31 March 2005, the value of the original £10 million investment would be worth £29.6 million taking into account indexation – the actual market value is £26 million.

Fixed asset investments comprise this endowment fund. A proportion of this fund is held in cash (£567,837 at 31 March 2005) and is disclosed, in these accounts, as a current asset as part of the cash balances of the National Heritage Memorial Fund. These investments are managed, on behalf of NHMF, by JP Morgan Fleming Asset Management (UK) Limited. The Trustees are not required to adopt the Trustee Investment Act 1961 when considering investment policy.

	2004/05 £000	2003/04 £000
Cost and net book value		
At 1 April	19,176	17,061
Additions	1,184	6,828
Disposals	(757)	(4,713)
Accrued income at year end	7	0
At 31 March	19,610	19,176
Net book value:		
Listed on the London Stock Exchange	0	1,964
Unlisted investments	19,610	17,212
	19,610	19,176
Cost	19,610	19,176
Market value	25,320	22,616
Unrealised gain	5,710	3,440

Unlisted investments comprise unit trusts and international government stock. There is no liability to taxation on gains realised by the National Heritage Memorial Fund.

16 Notes to the Accounts for the year ended 31 March 2005**11. Fixed asset investments (continued)**

A regional analysis of investments (at book cost), at the year end, was:

	2004/05 %	2003/04 %
UK	66	66
Europe (excluding UK)	10	11
North America	16	15
Japan and Far East	7	7
Latin America	1	1
	100	100

12. Debtors – all due within one year

	2004/05 £000	2003/04 £000
Prepayments and accrued income	4	14

13. Current asset investments

	Cost and Net Book Value 2004/05 £000	Cost and Net Book Value 2003/04 £000
At 1 April 2004	2,066	1,587
Additions	0	26,652
Disposals	(2,066)	(26,173)
At 31 March 2005	0	2,066
Cost:		
Listed on The London Stock Exchange	0	0
Call notice deposits	0	2,066
	0	2,066
Market value at 31 March 2005	0	2,076

Towards the end of the financial year, Trustees liquidated their current asset investments as they consider that it would be more cost-effective to hold grant-in-aid funds as cash. Current asset investments were managed, on behalf of the Trustees, by the Commissioners for the Reduction of the National Debt.

The market value, at 31 March 2005, of the current asset investments is disclosed below according to their stock exchange classification.

	2004/05 Cost £000	2004/05 Market value £000	2003/04 Market value £000
Government stock	0	0	0
Call notice deposits	0	0	2,076

14. Creditors: amounts falling due within one year

	2004/05 £000	2003/04 £000
Operating creditors	3	7
Other creditors including taxation and social security	22	182
Accruals and deferred income	42	32
	67	221

None of the liabilities of the National Heritage Memorial Fund was secured. Other creditors in 2003/4 included £177,220 relating to pension liabilities (see note 5). Of the above sums, £1,000 was payable to central government bodies (2003/4: £1,000).

15. Grant commitments

	2004/05 £000	2003/04 £000
At 1 April	8,198	6,364
Grants paid in the year	(7,027)	(5,996)
Commitments created in the year	2,760	7,830
De-commitments	(332)	(0)
At 31 March	3,599	8,198

The balance at the year-end represents amounts due in the following periods:

	2004/05 £000	2003/04 £000
in one year	3,599	6,898
in two to five years	0	1,300
	3,599	8,198

Commitments at the year end represent amounts owing by sector, as follows:

	2004/05 £000	2003/04 £000
Balances with central Government	648	2,238
Balances with other bodies	2,951	5,960
	3,599	8,198

18 Notes to the Accounts for the year ended 31 March 2005**16. Commitments**

Annual commitments of the National Heritage Memorial Fund under operating leases are as follows:

	£000	2004/05 £000	2003/04 £000
Short leasehold property			
Expiring within one year – gross	80		0
– recharged to the Heritage Lottery Fund	(80)		(0)
		0	0
Expiring in years two to five – gross	754		264
– recharged to the Heritage Lottery Fund	(747)		(264)
		7	0
Expiring thereafter – gross	474		1,148
– recharged to the Heritage Lottery Fund	(460)		(1,141)
		14	7
		21	7
Other operating leases			
Expiring within one year – gross	16		22
– recharged to the Heritage Lottery Fund	(16)		(22)
		0	0
Expiring in years two to five – gross	17		94
– recharged to the Heritage Lottery Fund	(17)		(94)
		0	0
Expiring thereafter – gross	0		0
– recharged to the Heritage Lottery Fund	(0)		(0)
		0	0
		0	0

The National Heritage Memorial Fund has no capital commitments contracted for, or capital commitments approved but not contracted for.

17. Notes to the cash flow statement**a) Reconciliation of operating deficit to net cash outflow from operating activities**

	2004/05 £000	2003/04 £000
Operating surplus/(deficit)	2,477	(3,145)
Add special grant-in-aid receipt re pension liabilities	0	727
Add back non-cash items:		
– depreciation	3	2
– decrease in provisions	0	0
– (decrease)/increase in grant commitment reserve	(4,599)	1,834
Increase in debtors (excluding capital, investments and other non-operating income)	0	(1)
Decrease in non-capital creditors	(153)	(8)
Net cash outflow from operating activities	(2,272)	(591)

17. Notes to the cash flow statement (continued)**b) Capital expenditure and financial investment**

	2004/05 £000	2003/04 £000
Payments to acquire tangible fixed assets	(2)	(1)
Payments to acquire fixed asset investments	(994)	(6,828)
Receipts from sales of tangible fixed assets	0	0
Receipts from sales of fixed asset investments	694	5,896
	(302)	(933)

c) Management of liquid resources

	2004/05 £000	2003/04 £000
Payments to acquire current asset investments	0	(26,652)
Receipts from sales of current asset investments	2,066	26,135
	2,066	(517)

d) Analysis of changes in net funds

	At 1 April 2004 £000	Cash flows £000	Other changes £000	At 31 March 2005 £000
Cash at bank	880	195	0	1,075
Current asset investments (at cost)	2,066	(2,066)	0	0
Total net funds	2,946	(1,871)	0	1,075

18. Notional costs

The National Heritage Memorial Fund does not insure its assets under Government Accounting rules. The National Heritage Memorial Fund is provided with funds from grant-in-aid. A notional charge for the cost of capital was calculated and disclosed in the income and expenditure account on the instruction of HM Treasury. The calculation is based upon 3.5% of the average capital employed in the year.

19. Related party transactions

The National Heritage Memorial Fund is a non-departmental public body sponsored by the Department for Culture, Media and Sport ("DCMS"). DCMS is regarded as a related party. During the year, the National Heritage Memorial Fund and the Heritage Lottery Fund have had various material transactions, other than grant awards, with DCMS and other entities for which DCMS is regarded as the sponsor department, being the Big Lottery Fund, English Heritage and Sport England.

In addition, the National Heritage Memorial Fund and the Heritage Lottery Fund have had a number of material transactions with other Government departments. These transactions have been with entities that regard the Department for Environment, Food and Rural Affairs as their parent department (being English Nature and the Countryside Agency); the National Audit Office and the Government Office for the Regions.

As a matter of policy and procedure, the Trustees declare any direct interests in grant applications and commercial relationships with the National Heritage Memorial Fund and exclude themselves from the relevant grant appraisal, discussion and decision processes within the National Heritage Memorial Fund. In their contacts with grant applicants, Trustees seek to avoid levels of involvement or influence that would be incompatible with their responsibilities as a Trustee of the National Heritage Memorial Fund. There are corresponding arrangements for staff to report interests and avoid possible conflicts of interest. The Register of Trustees' Interests is available for public inspection by contacting the Secretary to the Trustees, 7 Holbein Place, London SW1W 8NR.

During the year, no Trustees of the National Heritage Memorial Fund had an interest in any bodies in receipt of a grant from the National Heritage Memorial Fund. Liz Forgan, the chair of the Trustees, is the chair of a trust owning a newspaper group. The NHMF spent £34,837 directly with this organisation or via a third party. The Trustees are satisfied that in neither case was there any possibility of personal financial gain for the Trustee. There were no other grant or commercial transactions in which Trustees, committee members or staff had a material interest or influence.

20 Notes to the Accounts for the year ended 31 March 2005**20. Financial Instruments**

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

Liquidity Risks

In 2004/5, the National Heritage Memorial Fund's income derived from grant-in-aid from the Department for Culture, Media and Sport. The net returns from the endowment fund and current asset investments were positive in the year. The Trustees are satisfied that they have sufficient liquid resources, in the form of their endowment, current asset investments and cash (worth £26.4 million at the balance sheet date) to cover all current contracted commitments of £3.6 million. The Trustees consider that the Fund is not exposed to significant liquidity risks.

Interest Rate Risks

Cash balances, which are drawn down to pay grant commitments and operating costs, are held in instant access variable rate bank accounts, which on average carried an interest rate of 4.2% in the year. The year end cash balances, held by the Fund in the bank and with their endowment fund investment managers, were £1.1 million.

JP Morgan Fleming Asset Management (UK) Limited manages the NHMF's endowment and invests in a wide range of assets from marketable shares to cash. At the year-end, the market value of the endowment, including cash, was £25.9 million. Returns are dependent upon the stock market and performance of companies included within the portfolio. In the year, the average return on the endowment was a rise of 14.1% and on current asset investments was a rise of 4.4% (until they were sold). The Trustees keep the performance of investments under review. The Trustees consider that the Fund is not exposed to significant interest rate risks.

Foreign Currency Risks

The overwhelming majority of endowment fund investments are denominated in sterling. The Fund has very minor exposure to foreign exchange risks and Trustees do not consider these to be material.

21. Revaluation reserve

	2004/05 £000	2003/04 £000
At 1 April	3,440	232
Movement in the year	2,270	3,208
At 31 March	5,710	3,440

The revaluation reserve was created following a change in Treasury guidance on the preparation of NDPB accounts. All fixed assets are shown at current cost. Fixed asset investments (see note 11) are shown at market value on the balance sheet.

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