

NATIONAL LOTTERY ETC. ACT 1993

**Accounts**, of the National Heritage Memorial Fund Heritage Lottery Fund: Lottery Distribution, for the period ended 31 March 1999, together with the Certificate and Report of the Comptroller and Auditor General thereon. (In continuation of House of Commons Paper No. 1014 of 1997–98.)

Presented pursuant to Act 1993, c.39, s.35(5)

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# **National Heritage Memorial Fund Heritage Lottery Fund:— Lottery Distribution Account 1998–99**

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# Lottery Distribution Accounts prepared pursuant to section 34(1) of the National Lottery etc. Act 1993

## 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 Chairman 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") and the National Heritage Act 1997 ("the 1997 Act").

Under the 1993 Act, Trustees of the National Heritage Memorial Fund 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 Heritage Memorial Fund for sums allocated under the provisions of the 1980 Act and Heritage Lottery Fund (HLF) for the receipts of the 1993 Act.

Under section 21(1) of the National Lottery etc. Act 1993 a fund is maintained under the control and management of the Secretary of State known as the National Lottery Distribution Fund ("NLDF"). All sums received from the licensee of the National Lottery under section 5(6) are paid to the Secretary of State and placed by him in the NLDF. Trustees of the National Heritage Memorial Fund apply to the NLDF for funds to meet grant payments and administration expenses.

Under section 22 of the 1993 Act, the Secretary of State for Culture, Media and Sport shall allocate 20% of so much of the sum paid into the NLDF for expenditure on, or connected with, the national heritage. Section 23(3) establishes the Trustees of the National Heritage Memorial Fund as distributors of that portion. The percentage allocation was subsequently reduced to 16 $\frac{2}{3}$ % in October 1997 following the Government's creation of the New Opportunities Fund. Between February 1999 and May 1999, the heritage percentage allocation was further reduced to 5% to the benefit of the New Opportunities Fund.

Under section 3 of the 1980 Act, Trustees of the National Heritage Memorial Fund may make grants and loans out of the 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 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 National Lottery etc. Act 1993 extends the powers of Trustees that, in addition to the above, they may also help improve the display of items of outstanding interest to the national heritage by providing financial assistance, *inter alia*, 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 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. Following consultation with potential applicants, advisers, and other bodies, recommendations were made to Trustees on the implementation of these powers in a series of policy papers from October 1997 through to March 1998, and Trustees' decisions on these areas have now been reflected in the new application pack published in April 1998. As a result, there are further new initiatives dealing with revenue grants—to widen access in general to the heritage—as well as in the fields of archaeology, townscapes, information technology, and education.

In determining whether and on what terms to make a grant, Trustees have regard to the desirability of securing, improving or controlling public access to, or the display of, the property.

Trustees of the National Heritage Memorial Fund may, under section 4 of the 1980 Act, apply the Fund for any purpose other than grants, being a purpose connected with the acquisition, maintenance or preservation of property including its acquisition, maintenance or preservation by the Trustees. They may not however retain any property acquired by them except in such cases and for such period as the sponsoring Minister may allow.

### **Annual Report**

The Fund's Annual Report is laid before Parliament by the Secretary of State for Culture, Media and Sport.

### **Review of Activities**

During the course of 1998–99, the environment within which HLF operated was altered in several significant ways. The National Heritage Act 1997, widening HLF's powers and responsibilities, was reflected in the new Application Pack launched in April. The National Lottery Bill 1998 was also enacted. This created the New Opportunities Fund, but also required all distributors, among other things, to produce a strategic plan for the use of lottery funds. HLF also received new Policy and Financial Directions from the Secretary of State during 1998–99, both of which provide for a different climate in the way we should work for the future.

Using their new powers under the National Lottery Act, Trustees have set up independent decision-making committees for England, Northern Ireland, Scotland and Wales, which began to meet in October 1998, and have agreed the delegation of certain other decision-making functions to staff. All this has meant considerable changes to processes and to the methods of case handling.

From the 1 April 1998 to 31 March 1999, 1,631 grant applications were received directly by the Heritage Lottery Fund. A further 287 applications were received for the Joint Places of Worship Scheme run in partnership with English Heritage, before the Scheme had to be closed in May because of the build-up of applications. In total this represented an increase of around 12% on the numbers of direct applications compared to 1997-98. The 1,631 applications requested grants totalling £842 million (a 30% decrease on the previous year) for projects valued £1,536 million (a decrease of 23%). This compares with income to the Heritage Lottery Fund over the same period of £310 million (a decrease of 16% on 1997-98). In the year ended 31 March 1999, the Trustees of NHMF awarded 927 grants (including those in the Joint Places of Worship Scheme), to a total value of £305 million.

During the year, the Trustees of NHMF paid out £186 million in grants, and contracts were signed to the value of £391 million. In addition, the number of projects reaching completion increased. By the end of 1997-98 only 440 lottery funded projects had been completed, and many of those were acquisitions of land or museum objects. In 1998-99 alone, HLF made the final grant payments on 437 projects.

A number of specific programmes of grant funding were launched or continued during the year. Together with other lottery distributors, we piloted the Awards for All Scheme in Scotland, where 100 grants of under £5,000 were made to qualifying projects: the Scheme was later introduced in the East Midlands where one round of awards was also made. Together with other lottery distributors, we also ran the Millennium Festival Fund programme, under which we received 440 applications, 158 of which were funded with grants totalling £10.7 million. The resulting projects will be in place as part of the celebrations surrounding the turn of the Millennium. We also launched our Townscapes Heritage Initiative, and dealt during the year with 153 applications requesting £65.7 million; as a result we were able to allocate £17.6 million to 25 schemes throughout the UK, the majority of which are in Scotland, Northern Ireland and Wales. Finally, we launched our revenue grants programme in April 1998 and, later in the year, the Museums and Galleries Access Fund.

We continued to collaborate with English Heritage on the Joint Places of Worship Scheme, even though the Scheme had to be closed for most of 1998-99 because of the sheer weight of applications. Although our contribution to the Scheme in 1998-99 had been expected to be £10 million, Trustees were able to increase their contribution to £14 million, which more than matched the £12 million contributed by English Heritage. By the end of the year, the enormous backlog of applications had been cleared.

With the Countryside Commission, we launched the pilot phase of the Local Heritage Initiative, with 24 projects scattered throughout England: the nationwide launch of the scheme is expected during 1999-2000. Finally, support was also maintained for Tomorrow's Heathland Heritage with English Nature and the Wildlife Trusts, with a number of further grants made to County Trusts to help with the refurbishment of qualifying reserves.

During the year, Trustees consulted on a Strategic Plan covering the period to 2002. The Plan sets out the four strategic priorities of the Trustees—heritage conservation; national heritage; local heritage; and heritage education and access. The Plan was issued in May 1999.

**Year 2000**

The National Heritage Memorial Fund carried out a thorough review of its computer systems—both hardware and software—and other electronic systems during 1997-98. The situation was closely monitored during the current year. Risks of failure or impaired operation of these systems were considered and discussed with the suppliers or maintenance contractors of the equipment. From the results of this review it was concluded that there is no material risk to the National Heritage Memorial Fund. The situation will be monitored in the coming months, but there is no expectation of the incurring of costs to resolve any problems that arise.

In addition, the National Heritage Memorial Fund has considered the potential impact of this problem on significant suppliers. Almost all significant suppliers are sponsored bodies of various Government departments and have, therefore, to comply with Government policy on dealing with year 2000. Significant non-public sector suppliers have been contacted where there is a potential for a problem to impact on the National Heritage Memorial Fund. We have been assured that these organisations are compliant.

**Appointment of Auditors**

The National Heritage Act 1980 provides for the annual accounts of the National Heritage Memorial Fund to be audited by the National Audit Office. The National Lottery etc. Act 1993 extends this to the lottery activities of Trustees.

**Employee Consultation**

The nature of the operations of the Fund means that grant application processing staff work closely with Trustees and with them are involved in project evaluation and visits. 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 the senior management of the Fund ensures through the distribution of Management Group meeting agendas and minutes, face-to-face meetings and its 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. Trustees are aware that the increasing size of the National Heritage Memorial Fund makes it necessary to review continuously existing arrangements to ensure this continues to happen. 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 posts on the grounds of gender, marital status, race, colour, nationality, ethnic origin, religion, 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 Heritage Lottery Fund adheres to the Government-wide standard on bill-paying, which is to settle all valid bills within 30 days. In 1998-99, 99% of invoices were paid within 30 days.

**Chairman and  
Trustees of the  
National Heritage  
Memorial Fund**

Chairman: Dr Eric Anderson (*appointed Chairman on 1 April 1998*)  
 Trustees: Professor Chris Baines (*appointed 13 July 1998*)  
 Robert Boas Esq (*appointed 17 April 1998*)  
 Sir Richard Carew Pole  
 W Lindsay Evans Esq  
 Sir Alistair Grant (*until 28 February 1999*)  
 Sir Angus Grossart (*appointed 1 March 1999*)  
 Sir Ernest Hall (*appointed 6 July 1998*)  
 Sir Martin Holdgate (*until 24 April 1998*)  
 Mrs Caryl Hubbard  
 John Keegan Esq  
 Lady Lankester  
 Professor Palmer Newbould  
 Miss Susan Palmer  
 Mrs Catherine Porteous  
 Mrs Mary Ann Sieghart  
 Dame Sue Tinson  
 Director: Mrs Anthea Case

*Dr Eric Anderson*  
 Chairman

*Mrs Anthea Case*  
 Director

30 June 1999

## Statement of Trustees' and Director's responsibilities

Under section 34(1) of the National Lottery etc. Act 1993, the Trustees of the National Heritage Memorial Fund are required to prepare a statement of accounts for each financial year (on their lottery distribution activities) in the form and on the basis determined by the Secretary of State for Culture, Media and Sport with the consent of 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 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:

- observe the Accounts Direction issued by 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 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 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.

*Dr Eric Anderson*  
Chairman

*Mrs Anthea Case*  
Director

30 June 1999



## **Statement on the System of Internal Financial Control**

As Accounting Officer, I acknowledge my responsibility for ensuring that an effective system of internal financial control is maintained and operated by the National Heritage Memorial Fund.

The system can provide only reasonable and not absolute assurance that assets are safeguarded, transactions authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period.

The system of internal financial control is based on a framework of regular management information, administrative procedures including the segregation of duties, and a system of delegation and accountability. In particular, it includes:

- comprehensive budgeting systems with an annual budget that is reviewed and agreed by the Trustees of the National Heritage Memorial Fund;
- regular reviews by a committee of the Trustees of the National Heritage Memorial Fund of periodic and annual financial reports that indicate financial performance against the forecasts;
- procedures for the assessment of applications and the management of grants, ensuring that all applications and awards receive sufficient, consistent, processing in line with Policy and Financial Directions made by the Secretary of State;
- setting targets to measure financial and other performance;
- clearly defined capital investment control guidelines;
- as appropriate, formal project management disciplines.

The National Heritage Memorial Fund has an internal audit function provided by a firm of Chartered Accountants. They operate to standards defined in the Government Internal Audit Manual. The work of the internal audit function is informed by an analysis of the risk to which the body is exposed, and annual internal audit plans are based on this analysis. The analysis of risk and the internal audit plans are endorsed by the body's Audit Committee and approved by me. On an annual basis, the internal audit function supplies me with a report on internal audit activity in the body. The report includes the internal audit function's independent opinion on the adequacy and effectiveness of the body's system of internal financial control.

My review of the effectiveness of the system of internal financial control is informed by the work of the internal auditors, the Audit Committee that oversees the work of the internal auditors, the executive management within the National Heritage Memorial Fund who have responsibility for the development and maintenance of the financial control framework, and comments made by the external auditors in their management letter and other reports.

*Mrs Anthea Case*  
Director

30 June 1999

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

I certify that I have audited the financial statements on pages 11 to 23 under the National Lottery etc. Act 1993. 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 pages 14 and 15.

## Respective responsibilities of the Trustees, Director and Auditor

As described on page 6 the Trustees and the Director of the National Heritage Memorial Fund are responsible for the preparation of the financial statements and for ensuring the regularity of financial transactions. The Trustees and the Director are also responsible for the preparation of the Foreword. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

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 Lottery etc. Act 1993 and directions made thereunder by the Secretary of State for Culture, Media and Sport; 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 National Heritage Memorial Fund has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on pages 7 and 8 reflects the National Heritage Memorial Fund's compliance with Treasury's guidance 'Corporate governance: statement on the system of internal financial 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.

## Basis of opinion

I conducted my audit in accordance with 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 of the National Heritage Memorial Fund and the Director in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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 National Heritage Memorial Fund's Lottery Distribution Activities at 31 March 1999 and of the decrease in funds available, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the National Lottery etc. Act 1993 (as amended) and directions made thereunder by the Secretary of State for Culture, Media and Sport;
- 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

6 July 1999

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

## Income and Expenditure Account for the year ended 31 March 1999

	Notes	1998-99 £000	1997-98 £000
Proceeds from the National Lottery		310,223	365,717
Interest receivable		735	554
Sundry income	2	4	3
<b>Total Income</b>		<b>310,962</b>	<b>366,274</b>
New grants paid in the year		36,409	59,674
Provision for new hard commitments		346,915	346,882
<b>Grant Expenditure</b>		<b>(383,324)</b>	<b>(406,556)</b>
Staff costs	3	4,847	4,268
Depreciation	7	500	278
Other operating charges	4	6,553	7,446
		<b>(11,900)</b>	<b>(11,992)</b>
<b>Total expenditure</b>		<b>(395,224)</b>	<b>(418,548)</b>
<b>Decrease in funds</b>		<b>(84,262)</b>	<b>(52,274)</b>
Notional cost of capital	16	(151)	(325)
Decrease in funds including notional costs		<b>(84,413)</b>	<b>(52,599)</b>
Reversal of notional costs		151	325
<b>Decrease in Funds</b>		<b>(84,262)</b>	<b>(52,274)</b>

There are no gains and losses accruing to the Heritage Lottery Fund other than disclosed in the income and expenditure account. Accordingly, no statement of total recognised gains and losses has been prepared.

All figures shown relate to continuing activities.

*The notes on pages 14 to 23 form part of the accounts.*

## Balance Sheet as at 31 March 1999

	Notes	1998-99 £000	1997-98 £000
<b>Fixed assets</b>			
Tangible fixed assets	7		1,383
<b>Current assets</b>			
Investments—balance at the NLDF	9	890,159	775,736
Debtors	8	309	175
Cash at Bank and in Hand		1,132	803
		891,600	776,714
<b>Creditors: Amounts falling due within one year</b>			
	10	(1,957)	(1,778)
<b>Net Current Assets</b>		<b>889,643</b>	<b>774,936</b>
		<b>890,787</b>	<b>776,319</b>
 <b>Represented by:</b>			
<b>Provisions for Liabilities and Charges</b>	11		1,105
<b>Reserves</b>			
Grant commitment reserve	12		468,359
Income and expenditure account brought forward		306,855	359,129
Movement in the year		(84,262)	(52,274)
Income and expenditure account carried forward			306,855
		<b>222,593</b>	<b>306,855</b>
		<b>890,787</b>	<b>776,319</b>

*The notes on pages 14 to 23 form part of the accounts.*

*Dr Eric Anderson*  
Chairman

*Mrs Anthea Case*  
Director

30 June 1999

## Cash Flow Statement for the year ended 31 March 1999

	Notes	1998-99 £000	1997-98 £000
<b>Net cash outflow from operating activities</b>	15a	(172)	(8,150)
<b>Returns on investment and servicing of finance</b>			
Interest received		746	549
<b>Capital expenditure and financial investment</b>	15b	(245)	(1,042)
<b>Increase/(decrease) in cash</b>		329	(8,643)
		1998-99 £000	1997-98 £000
<i><b>Reconciliation of net cash flow to movement in net funds</b></i>			
Increase/(decrease) in cash in the period		329	(8,643)
<b>Changes in net funds</b>		329	(8,643)
Net funds at 1 April		803	9,446
<b>Net funds at 31 March</b>		1,132	803

*The notes on pages 14 to 23 form part of the accounts.*

# Notes to the Accounts for the year ended 31 March 1999

**Statement of  
Accounting Policies**

**1 Accounting Convention**

The accounts have been drawn up on an accruals basis. They are prepared under the historic cost convention modified by the inclusion of fixed assets at their value to the organisation by reference to current costs. Without limiting the information given, the accounts meet the accounting and disclosure requirements of the Companies Act 1985 and Accounting Standards issued or adopted by the Accounting Standards Board, so far as those requirements are appropriate. The National Lottery Fund Accounts Direction issued by the Secretary of State specifically excludes the preparation of consolidated accounts.

**Fixed Assets**

Depreciation is provided on all tangible fixed assets at rates calculated to write-off the cost or valuation of each asset over its expected useful life. These lives are as follows:

improvements to short leasehold property	—	in equal proportions over the life of the lease.
office equipment	—	4-10 years
office fittings	—	4-10 years

**Allocation of Costs**

The operations of the National Heritage Memorial Fund are split into two funds—the Heritage Lottery Fund and the Heritage Memorial Fund—reflecting the two sources of income. The National Heritage Memorial Fund incurs indirect costs which are shared between activities funded by the Heritage Memorial Fund 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.

The results of the Heritage Memorial Fund are reported in a separate set of accounts.

**Taxation**

No provision is made for general taxation as the National Heritage Memorial Fund is statutorily exempt. The National Heritage Memorial Fund is liable for Value Added Tax and the cost is included under the relevant expenditure heads.

**Pensions**

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. Variations from regular cost arising from periodic actuarial valuations are allocated to the income and expenditure account over the expected remaining service lives of the Members.



**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.

**Balances at the National Lottery Distribution Fund**

The Secretary of State for Culture, Media and Sport is accountable for balances held in the National Lottery Distribution Fund. They remain under his stewardship and control. The share of these balances attributable to the Trustees of the National Heritage Memorial Fund is as shown in the accounts and, at the balance sheet date, has been certified by the Secretary of State for Culture, Media and Sport as being available for distribution by the Trustees in respect of current and future commitments.

**Grant Commitments**

“Soft” commitments, as defined by the Accounts Direction of the Secretary of State for Culture, Media and Sport, represent grants approved by Trustees subject to the successful conclusion of contractual negotiations. When contractual negotiations are successfully completed the commitments are described as “hard”.

**Sundry income**

2

	1998-99	1997-98
	£000	£000
Profit on disposal of fixed assets	—	3
Sundry income	4	—
	<u>4</u>	<u>3</u>

**Staff costs and numbers**

3

	1998-99	1997-98
	£000	£000
Salaries	3,464	3,128
Employer's NI payments	253	212
Provision for pension liabilities (see note 5)	759	421
Temporary staff costs	371	507
	<u>4,847</u>	<u>4,268</u>

All costs were recharged from the National Heritage Memorial Fund

The Chairman of the National Heritage Memorial Fund received £33,853 during the year (1997-98 *£nil*). Of this figure, £33,514 was charged to the Heritage Lottery Fund and £339 to the Heritage Memorial Fund. The Chairman has a three-year appointment, made by the Prime Minister. He is not a member of the Fund's pension scheme and no contributions were made by the Fund to a pension scheme on his behalf.

Four other Trustees were entitled to receive remuneration in 1998-99. One Trustee waived his right to remuneration. Their salaries in bands of £5,000 were as follows:

	1998-99 number	1997-98 number
£0 to £5,000	1	—
£5,000 to £10,000	3	—

All Trustees have three-year appointments, potentially renewable for a second term. They are appointed by the Prime Minister.

The remuneration of the Director, Anthea Case, during the year was as follows:

	1998-99 £	1997-98 £
Anthea Case—salary	80,000	76,500
—performance related bonus	800	3,000
	<u>80,800</u>	<u>79,500</u>

Of this total figure, a value of £79,392 (1997-98: £76,189) was allocated to the Heritage Lottery Fund, £1,408 (1997-98: £3,311), or 2%, was allocated to the Heritage Memorial Fund.

Anthea Case has a five year contract that contains a performance element dependent upon the attainment of agreed targets. She is not entitled to any compensation should she lose her accounting officer status. Anthea Case is an ordinary member of the pension scheme. As the pension scheme is unfunded, no contributions have been made, by the National Heritage Memorial Fund, in respect of the Director's employment.

The numbers of staff, excluding the Director, who received remuneration in excess of £40,000 were as follows. These figures include staff seconded to the National Heritage Memorial Fund from other organisations. The information is shown in bands of £10,000:

	1998-99 number	1997-98 number
£40,001 to £50,000	5	5
£50,001 to £60,000	3	—
£60,001 to £70,000	—	1

A small proportion of the above costs were met by the *Heritage Memorial Fund*.

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

	1998-99 number	1997-98 number
Grant applications	85	66
Finance and administration	29	23
Policy	8	6
Public relations	10	11
	<u>132</u>	<u>106</u>

There has been a change in the manner of disclosure of staff by function to better reflect the operation of the Fund. These figures do not include temporary staff numbers that were, on average, 18 (1997-98: 20).

Additionally, an average of 3 staff were employed on Heritage Memorial Fund activities.

**Operating surplus**

4 The operating surplus is stated after charging the following:

	1998-99 £000	1997-98 £000
Auditor's remuneration	29	29
Payments under operating leases— leasehold premises	559	271
hire of office equipment	77	74
	<u>          </u>	<u>          </u>

An analysis of other operating charges is as follows:

	1998-99 £000	1997-98 £000
Accommodation	851	493
Postage and telephone	219	165
Office supplies, print and stationery	242	222
Travel, subsistence and hospitality—Trustees	51	33
Travel, subsistence and hospitality—staff	245	116
Professional fees—grant related	2,698	4,345
Professional fees—non-grant related	1,185	927
Public relations and communications	814	701
Creation of sundry write-off provisions	0	100
Sundry expenses	248	344
	<u>6,553</u>	<u>7,446</u>

**Recharged costs**

5 A change in the operating structure of the National Heritage Memorial Fund on 1 April 1997 meant that there is no longer a separate Lottery-only cost centre. Hence, there are no direct costs, as all costs were recharged from the National Heritage Memorial Fund. As disclosed in note 1 to these accounts, the 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%.

**Pensions**

6 The National Heritage Memorial Fund operates a non-contributory pension scheme to provide retirement and related benefits to all eligible employees. Retirement benefits are based upon individual final emoluments and length of service. The scheme has not been funded, but relies upon a "pay-as-you-go" basis from Lottery funds—a provision for these future pension payments is disclosed in the balance sheet. Should the National Lottery terminate, and the Heritage Lottery Fund has insufficient reserves to meet its outstanding pension commitments, then the shortfall

will be met from grant-in-aid. Employees make a contribution of 1½% of gross salary, mainly to provide benefits to their spouses and dependent children. In addition, staff can transfer into the scheme their accrued benefits from other pension schemes.

Trustees of the National Heritage Memorial Fund set up a provision to reflect, fully, pension liabilities for its employees and former employees. The provision is calculated in line with the recommendations of the Government Actuary. During the year, the Government Actuary carried out a review of the pension scheme's liabilities as at the 31 March 1998. They concluded that the outstanding liability at that date was £1.58 million. This exceeded the existing combined provision of the Heritage Lottery Fund and the Heritage Memorial Fund at that date. Statement of Standard Accounting Practice 24 requires material deficiencies to be resolved over the expected remaining service lives of current employees in the scheme after making suitable allowance for future withdrawal. Trustees do not consider the shortfall—£124,000—to be material and, thus, an additional charge has been made solely to 1998-99. Trustees are satisfied that the provision at 31 March 1999, based upon actuarial advice for the National Heritage Memorial Fund, is sufficient to meet liabilities.

Tangible Fixed Assets	7	Improvements to Short Leasehold Property			Total £000
		£000	Office Equipment £000	Office Fittings £000	
Cost at 1 April 1998		642	667	541	1,850
Additions		34	137	76	247
Transfers from the <i>Heritage Memorial Fund</i>		7	7	6	20
Assets written-off		—	(1)	—	(1)
at 31 March 1999		<u>683</u>	<u>810</u>	<u>623</u>	<u>2,116</u>
Depreciation at 1 April 1998		35	274	158	467
Charge for the year		54	182	264	500
Transfers from the <i>Heritage Memorial Fund</i>		1	3	2	6
Assets written-off		—	(1)	—	(1)
at 31 March 1999		<u>90</u>	<u>458</u>	<u>424</u>	<u>972</u>
Net book value at 31 March 1998		<u>607</u>	<u>393</u>	<u>383</u>	<u>1,383</u>
at 31 March 1999		<u>593</u>	<u>352</u>	<u>199</u>	<u>1,144</u>

The Trustees have considered the value of the fixed assets and are satisfied that their value, at 31 March 1999, was not less than their net book value shown in the accounts. No assets were held under finance leases. The value of fixed assets represents a proportionate split of the assets used by the Heritage Memorial Fund and the Heritage Lottery Fund.

The improvements to short leasehold property consist of adaptation and refurbishment costs at the premises of the National Heritage Memorial Fund, which are held under an operating lease.

During the year a number of fixed assets were transferred from the Heritage Memorial Fund to the Heritage Lottery Fund. The transfer, of computer and other equipment and office furniture, took place at net book value.

<b>Debtors</b>	<b>8</b>		<b>1998-99</b>	<b>1997-98</b>
			<b>£000</b>	<b>£000</b>
		Prepayments and accrued income	<u>309</u>	<u>175</u>

Included in prepayments and accrued income is £44,000 (1997-98: £28,000) representing outstanding season ticket loans to employees.

<b>Investments</b>	<b>9</b>		<b>1998-99</b>	<b>1997-98</b>
			<b>£000</b>	<b>£000</b>
		Balance at the National Lottery Distribution Fund—cost	890,159	775,736
		Balance at the National Lottery Distribution Fund— market value	<u>893,135</u>	<u>776,876</u>

There is no liability to taxation on gains realised by the National Heritage Memorial Fund.

There is no income, derived, from this investment, separately disclosed in these accounts. Investment of this money is carried out by the National Investment and Loans Office that adds its return to the balance held. Trustees of the National Heritage Memorial Fund have no control over investment policy. The Statement of Accounting Policies—note 1 to these accounts—contains further information on this matter. The balance at the National Lottery Distribution Fund is unaudited as the audit of that body is incomplete.

<b>Creditors: amounts falling due within one year</b>	<b>10</b>		<b>1998-99</b>	<b>1997-98</b>
			<b>£000</b>	<b>£000</b>
		Operating creditors	631	674
		Other creditors including taxation and social security	98	10
		Accruals and deferred income	<u>1,228</u>	<u>1,094</u>
			<u>1,957</u>	<u>1,778</u>

None of the liabilities of the *Heritage Lottery Fund* was secured.

<b>Provision for liabilities and charges</b>	<b>11 Pensions and similar liabilities</b>	<b>1998-99</b>	<b>1997-98</b>
		<b>£000</b>	<b>£000</b>
	Provision at 1 April	1,105	521
	Net transfers into the scheme	809	133
	Actuarial adjustment (see note 6)	124	—
	Increase to provision based upon payroll costs	671	451
	Pension payments made	(5)	—
	Provision at 31 March	<u>2,704</u>	<u>1,105</u>

There has been an increase in the provision for pension liabilities because, as discussed in note 6, the National Heritage Memorial Fund does not operate a funded pension scheme. Consequently, no payments are made to external bodies to fund the pension liabilities of the Heritage Lottery Fund.

<b>Other provisions</b>	<b>1998-99</b>	<b>1997-98</b>
	<b>£000</b>	<b>£000</b>
Provision at 1 April	—	307
Created in the year	—	—
Less: shown in creditors: amounts falling due in less than one year	—	—
Released in the year	—	(307)
Provision at 31 March	<u>—</u>	<u>—</u>

<b>Grant commitment</b>	<b>12 Hard commitments</b>	<b>1998-99</b>	<b>1997-98</b>
		<b>£000</b>	<b>£000</b>
	Brought forward at 1 April	468,359	191,537
	Transfers from soft commitments	391,002	412,722
	De-commitments	(7,678)	(6,166)
	Commitments paid	(186,193)	(129,734)
	Carried forward at 31 March	<u>665,490</u>	<u>468,359</u>
	<i>Soft commitments</i>		
		<b>1998-99</b>	<b>1997-98</b>
		<b>£000</b>	<b>£000</b>
	Brought forward at 1 April	296,847	368,763
	Soft commitments made	304,639	357,655
	Soft de-commitments (net)	(21,166)	(16,849)
	Transfers to hard commitments	(391,002)	(412,722)
	Balance carried forward at 31 March	<u>189,318</u>	<u>296,847</u>

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

*Hard commitments*

	1998-99 £000	1997-98 £000
in one year	665,490	468,359
in two to five years	—	—
in more than five years	—	—
	<u>665,490</u>	<u>468,359</u>

*Soft commitments*

	1998-99 £000	1997-98 £000
in one year	189,318	296,847
in two to five years	—	—
in more than five years	—	—
	<u>189,318</u>	<u>296,847</u>

**Commitments**

**13** Annual commitments of the Heritage Lottery Fund under operating leases are as follows:

	1998-99 £000	1997-98 £000
<b>Short leasehold property</b>		
expiring within one year	8	—
expiring in years two to five	24	—
expiring thereafter	594	588
	<u>626</u>	<u>588</u>
<b>Other operating leases</b>		
expiring within one year	—	—
expiring in years two to five	90	80
expiring thereafter	—	—
	<u>90</u>	<u>80</u>

Capital commitments not provided in these accounts are as follows:

	1998-99 £000	1997-98 £000
Committed in respect of capital expenditure for administrative purposes	—	26
Authorised in respect of capital expenditure for administrative expenses, but not contracted	—	—
	<u>—</u>	<u>26</u>

**Reconciliation of the  
Movement of Funds**      **14**

	<b>Balance held at the NLDF £000</b>	<b>Balances held by the Heritage Lottery Fund £000</b>	<b>1998-1999 £000</b>
Balance at 1 April	775,736	(468,881)	306,855
Proceeds from the National Lottery	310,223	—	310,223
Investment gains at the NLDF			
Drawn down in the year	(195,800)	195,800	—
Sundry income	—	739	739
Grants paid and hard commitments created	—	(383,324)	(383,324)
Staff costs	—	(4,847)	(4,847)
Depreciation of fixed assets	—	(500)	(500)
Other operating charges	—	(6,553)	(6,553)
Total increase/(decrease) in funds	<u>114,423</u>	<u>(198,685)</u>	<u>(84,262)</u>
Balance at 31 March	<u>890,159</u>	<u>(667,566)</u>	<u>222,593</u>

**Notes to the cash flow  
statement**

<b>15 (a) Reconciliation of operating (deficit)/surplus to cash inflow from operating activities</b>	<b>1998-99 £000</b>	<b>1997-98 £000</b>
(Decrease) in funds	(84,262)	(52,274)
Less interest receivable	(746)	(549)
Add back non-cash items:		
—depreciation	500	278
—provision for the write-off of fixed assets	—	91
—other provisions	1,599	94
—increase in grant commitment reserve	197,131	276,822
—funds not drawn down from the National Lottery Distribution Fund	(114,423)	(232,510)
(Increase)/decrease in non-interest debtors	(145)	47
Increase/(decrease) in non-capital creditors	174	(149)
Net cash outflow from operating activities	<u>(172)</u>	<u>(8,150)</u>
<b>(b) Capital expenditure</b>		
	<b>1998-99 £000</b>	<b>1997-98 £000</b>
Payments to acquire tangible fixed assets	<u>(245)</u>	<u>(1,042)</u>



**(c) Analysis of changes in net funds**

	At 1 April 1998	Cash flows	At 31 March
	£000	£000	1999
	£000	£000	£000
Cash at bank	<u>803</u>	<u>329</u>	<u>1,132</u>

**Notional costs**

- 16 The Heritage Lottery Fund does not insure its assets under Government Accounting rules. The Heritage Lottery Fund is provided with funds from the National Lottery. Notional costs for insurance and the cost of capital were previously calculated and disclosed in the income and expenditure account on the instruction of HM Treasury. However, since the release of Financial Reporting Standard 12, no notional cost has been calculated for insurance.

**Related party transactions**

- 17 The National Heritage Memorial Fund is a non-departmental public body sponsored by the Department for Culture, Media and Sport. The Department for Culture, Media and Sport is regarded as a related party. During the year, the National Heritage Memorial Fund and the Heritage Lottery Fund have had various material transactions with the Department for Culture, Media and Sport and other entities for which the Department for Culture, Media and Sport is regarded as the parent department:

The British Library	English Heritage
English Nature	Museums and Galleries Commission
National Lottery Charities Board	North West Museums Service
The Science Museum	South Eastern Museums Service

In addition, the National Heritage Memorial Fund and the Heritage Lottery Fund have had a number of material transactions with other Government departments. Most of these transactions have been with entities that regard the Scottish Office as their parent department (being the Scottish Museums Council and Historic Scotland); the Welsh Office (being CADW); the Inland Revenue (being the Valuation Office); the Department of the Environment, Transport and the Regions (being the Countryside Commission) and the Department of the Environment, Northern Ireland.

During the year, two Trustees of the National Heritage Memorial Fund were also Trustees of three nationally recognised bodies to which Lottery grants have been made. In no such case was there any possibility of personal financial gain for Trustees. There were no other grant or commercial transactions in which Trustees or staff stood to benefit or where they had a material interest or influence.





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