

NATIONAL HERITAGE ACT 1980

Accounts, of the National Heritage Memorial Fund for the year 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. 1013 of 1997–98.)

Presented pursuant to Act 1980, c.17, s.7(2)

National Heritage Memorial Fund Accounts 1998–99

ORDERED BY THE HOUSE OF COMMONS TO BE PRINTED 8 JULY 1999

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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 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 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 the sums allocated under the provisions of the 1980 Act and Heritage Lottery Fund for the receipts from the provisions of the 1993 Act.

Under section 2 of the 1980 Act, the Secretary of State for Culture, Media and Sport shall pay into the Fund in the first month of each year a sum determined before the beginning of the year and any other sums he may from time to time determine.

Under section 3 of the 1980 Act, Trustees 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 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. Trustees propose to use these extended powers primarily in connection with the Heritage Lottery Fund.

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

Trustees may, under section 4 of the 1980 Act, apply the Fund for any purpose other than grants or loans, 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.

Subject to the provisions of section 5 of the 1980 Act, Trustees may accept gifts of money or other property. However they shall not accept a gift unless it is either unconditional or on conditions which enable the subject of the gift to be applied by Trustees in a manner which complies with the 1980 Act. Any property other than money shall not be retained by Trustees except in such cases and for such period as the sponsoring Minister will allow.

Any sums in the Fund directly or indirectly representing money paid into the Fund by Ministers may, under section 6 of the 1980 Act, be invested by Trustees with the approval of Treasury.

Annual Report

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

Review of Activities

The Trustees of the National Heritage Memorial Fund committed to six new grants totalling £5,511,242 during the year.

Grant payments made during the year came to £4,515,040, in respect of 13 items of outstanding national heritage importance. In addition, a loan of £220,000 to the Scottish Mining Museum in respect of the Lady Victoria Colliery was converted to a grant.

The largest grant payment in the year was £3,000,000 to the British Library towards the acquisition of the Sherborne Missal. This was the first of two instalments.

The National Heritage Memorial Fund was established to commemorate those who gave their lives for the United Kingdom. Trustees were therefore pleased to award three grants worth in total £998,575 towards the long-term preservation of HMS Cavalier at Chatham Dockyard. HMS Cavalier is the last surviving destroyer that saw active service in the Second World War. The vessel will be preserved as a memorial to the 30,000 men who lost their lives in destroyers during that war.

During the year the Culture, Media and Sports Committee of the House of Commons reported on their inquiry into the preservation of HMS Cavalier. The Committee commended the National Heritage Memorial Fund for the speed with which applications were handled and for the decisions to grant funding to make HMS Cavalier's preservation possible.

The grant-in-aid received from the then Department of National Heritage in 1998-99 was £2 million, compared with £5 million in the preceding year and £12 million in 1993-94, the year before the inception of the Heritage Lottery Fund. As at 31 March 1999 the total of grant commitments outstanding was £3,386,633.

Trustees of the National Heritage Memorial Fund also maintain a portfolio of investments, which provide an endowment for the National Heritage Memorial Fund. At the end of the year, the market value of the portfolio was over £36 million. A contract with Fleming Investment Management Ltd., for the professional management of the portfolio of investments, was extended for a second term following competitive tendering. Flemings have been set challenging targets for maximising overall returns. Current asset investments are managed by the National Investments and Loans Office.

The future

The Secretary of State for Culture, Media and Sport announced that the grant-in-aid to the National Heritage Memorial Fund will be increased to £2.5 million in 1999-2000, £3 million in 2000-01 and £5 million in 2001-02.

Since 1994 the Heritage Lottery Fund has provided an additional source of funding for heritage of national importance. However, the Heritage Lottery Fund cannot be a substitute for the Government's own commitment to the national heritage, nor fulfil the National Heritage Memorial Fund's role as a memorial to those who gave their lives for their country. The increasing demands on the Heritage Lottery Fund, and Trustees decision to devote a considerable part of its resources to strategic programmes, will mean that it is less able to offer support towards individual heritage items of national importance at short notice. In this context, Trustees believe that the National Heritage Memorial Fund has a vital and continuing role as the central bulwark in the nation's defence of items of outstanding national heritage importance which are at risk.

Whilst the increase in grant-in-aid to the National Heritage Memorial Fund from £2 million to £2.5 million is welcome, the full sum is not available to make new commitments because of previous commitments. In exceptional cases the Trustees may use the surplus resources in the National Heritage Memorial Fund endowment (as designated by Trustees).

During the year the Culture, Media and Sport Committee conducted an enquiry into the Heritage Lottery Fund which considered non-lottery funding of the heritage, including the National Heritage Memorial Fund. The Committee concluded that it would remain vigilant about grant-in-aid for heritage bodies in consequence of the availability of lottery funds, not least to seek to ensure that the belated upward trend in the National Heritage Memorial Fund's grant-in-aid was maintained in future public expenditure settlements. The Committee specifically recommended that there should be increases in the grant-in-aid to the National Heritage Memorial Fund. The Trustees welcomed the conclusion and recommendation.

Trustees will continue to use the annual resources provided by Government to the National Heritage Memorial Fund—as well as resources generated by its endowment fund if that proves necessary—to offer financial assistance as a fund of last resort towards the acquisition, preservation and maintenance of heritage which is threatened by destruction. Trustees have decided that for at least until April 2000, support for acquisitions of individual items that only face the risk of loss to the UK by export will be a low priority.

Trustees remain concerned about their ability to fulfil the duties given to them by statute and therefore continue to press the Government to restore grant-in-aid to previous levels.

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.

Significant changes in Fixed Assets

During the year the Heritage Memorial Fund transferred a number of its fixed assets to the Heritage Lottery Fund, as disclosed in note 10.

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 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. A Staff Council is in existence, comprising representatives from each department, to discuss 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 National Heritage Memorial Fund adheres to the Government-wide standard on bill-paying which is to settle all valid bills within 30 days. In 1998-99, 99 per cent 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 Evens 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 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 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 are required to:

- observe the accounts direction issued by the Secretary of State with the consent of 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 statement 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 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 on 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 10 to 26 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 pages 13 and 14.

Respective responsibilities of Trustees, Director and Auditors

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 National Heritage Act 1980 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 Authority'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 at 31 March 1999 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 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
Victoria
London SW1W 9SP

Income and Expenditure Account for the year ended 31 March 1999

	Notes	£000	1998-99 £000	1997-98 £000
Operating Income				
HMG grants	2	2,000		5,000
Other operating income	3	91		21
			2,091	5,021
Heritage Expenditure				
Grants paid			(4,735)	(3,112)
Administrative Expenditure				
Staff costs	4	(117)		(166)
Depreciation	10	(8)		(6)
Other operating charges	6	(150)		(176)
			(275)	(348)
Operating (Deficit)/Surplus			(2,919)	1,561
Income from investments	7	851		994
Profit on the sale of investments	8	5,366		554
Interest receivable	9	21		32
			6,238	1,580
Net surplus/(deficit) before notional costs			3,319	3,141
Notional costs—capital	20		(1,745)	(1,550)
Net surplus/(deficit) including notional costs			1,574	1,591
Reversal of notional costs			1,745	1,550
Surplus transferred to the accumulated fund			3,319	3,141
Accumulated fund brought forward			24,106	20,138
			27,425	23,279
Grants paid in the year	17	4,735		3,112
Net commitments created in the year	17	(5,501)		(2,285)
Transfer (to)/from grant commitment reserve			(766)	827
Accumulated Fund carried forward			26,659	24,106

This account excludes the Lottery activities of the National Heritage Memorial Fund which are separately reported in the accounts of the Heritage Lottery Fund. There are no gains and losses accruing to the National Heritage Memorial Fund other than disclosed in the income and expenditure account (1997-98: *£nil*). Accordingly, no statement of total recognised gains and losses has been prepared. All figures shown relate to continuing activities.

The notes on pages 13 to 26 form part of the accounts.

Balance Sheet as at 31 March 1999

	Notes	1998-99 £000	1997-98 £000
Fixed Assets			
Tangible fixed assets	10	11	29
Investments	12	27,879	22,835
		<u>27,890</u>	<u>22,864</u>
Current Assets			
Debtors	13	247	472
Investments	14	1,276	3,134
Cash in hand and at the Bank of England		101	529
Cash at Robert Fleming & Co. Limited	11	968	78
		<u>2,592</u>	<u>4,213</u>
Creditors			
Amounts falling due within one year	15	(62)	(33)
Net Current Assets		<u>2,530</u>	<u>4,180</u>
Total Assets Less Current Liabilities		<u>30,420</u>	<u>27,044</u>
Financed by:			
Provisions for Liabilities and Charges			
Pensions and similar liabilities	16	375	318
Reserves			
Grant commitment	17	3,386	2,620
Accumulated Fund			
Accumulated fund brought forward		24,106	20,138
Result for the year		3,319	3,141
Transfer to/from grant commitment reserve		(766)	827
Accumulated fund carried forward		<u>26,659</u>	<u>24,106</u>
		<u>30,420</u>	<u>27,044</u>

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 13 to 26 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
Net cash outflow from operating activities	19a	(2,547)	(1,566)
Returns on investment and servicing of finance			
Interest received		23	32
Dividends received		796	969
		<hr/>	<hr/>
Net cash inflow from returns on investments		819	1,001
Capital expenditure and financial investment	19b	330	(2,135)
		<hr/>	<hr/>
Cash flow before management of liquid resources		(1,398)	(2,700)
Management of liquid resources	19c	1,860	1,249
		<hr/>	<hr/>
Increase/(decrease) in cash		462	(1,451)
		<hr/>	<hr/>
		1998-99 £000	1997-98 £000
Reconciliation of net cash flow to movement in net funds			
Increase/(decrease) in cash in the period		462	(1,451)
Cash used to increase liquid resources	19d	(1,860)	(1,249)
Profit on disposal of current asset investments		2	4
Changes in net funds		(1,396)	(2,696)
		<hr/>	<hr/>
Net funds at 1 April		3,741	6,437
Net funds at 31 March		2,345	3,741
		<hr/>	<hr/>

The notes on pages 13 to 26 form part of the accounts.

Notes to the Accounts

Statement of Accounting Policies

1 Accounting convention

These accounts are drawn up in a form directed by the Secretary of State and approved by Treasury. 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 Statements of Standard Accounting Practice issued by the member bodies of the Consultative Committee of Accountancy Bodies, 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.

Government grants

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

Fixed assets

Depreciation is provided 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—	in equal proportions over the life of the lease.
office equipment—	4–10 years
office fittings—	4–10 years

Investments

These are included in the accounts at cost. The market value of the investments is disclosed as a note to the accounts. 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 are not reflected in the income and expenditure account unless the Trustees consider there to have been a permanent diminution in value.

Allocation of costs

The operations of the National Heritage Memorial Fund are split into two funds—The Heritage Memorial Fund and the Heritage Lottery Fund—reflecting the two main 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 Lottery 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.

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. Variations from regular cost arising from periodical 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.

HMG grants	2	1998-99	1997-98
		£000	£000
Grant from Department for Culture, Media and Sport		<u>2,000</u>	<u>5,000</u>

Other operating income	3	1998-99	1997-98
		£000	£000
Repayments of grants (see note below)		89	3
Donations from the general public		0	18
Rebate from the National Land Fund		2	0
		<u>91</u>	<u>21</u>

The repayment of grants figure represents amounts re-imbursed to the National Heritage Memorial Fund following the failure of an applicant to meet requirements. Rebates from the National Land Fund are amounts originally awarded by the National Heritage Memorial Fund's predecessor body, re-imbursed following the failure to fulfil contractual arrangements.

Staff costs and numbers	4	1998-99	1997-98
		£000	£000
Salaries		61	131
Employer's NI payments		4	9
Provision for pension liabilities (see note 5)		46	18
Pensions paid		0	3
Temporary staff costs		6	5
		<u>117</u>	<u>166</u>

Additional costs of £4,847,000 have been charged to the Heritage Lottery Fund and are reflected in the accounts of that 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	0
£5,000 to £10,000	3	0

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	3,080
	<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 per cent, 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	0
£60,001 to £70,000	0	1

Most of these costs were re-charged to the Heritage Lottery Fund.

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

	1998-99 Number	1997-98 Number
Grant applications	2	3
Finance and administration	1	1
Policy	0	0
Public relations	0	1
	<u>3</u>	<u>5</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, 0 (1997-98: 1). Additionally, an average of 132 staff were employed on Heritage Lottery Fund activities.

Pensions

- 5 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 Grant-in-Aid—a provision for these future pension payments is disclosed in the balance sheet. Employees make a contribution of 1½ per cent 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.

With the onset of accruals accounting in 1994, the Trustees of the National Heritage Memorial Fund took advice from a firm of actuaries and 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 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—£35,000—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.

Operating deficit

- 6 The operating deficit is stated after charging the following:

	1998-99 £000	1997-98 £000
Auditor’s remuneration	7	9
Payments under operating leases		
-leasehold premises	10	13
-hire of plant and machinery	1	3
	<u>18</u>	<u>25</u>

An analysis of other operating charges is as follows:

	1998-99 £000	1997-98 £000
Accommodation	16	23
Postage and telephone	4	6
Office supplies, print and stationery	4	12
Travel, subsistence and hospitality—Trustees	1	0
Travel, subsistence and hospitality—staff	1	1
Professional fees—grant related	1	2
Professional fees—non-grant related	106	83
Public relations and communications	13	21
Creation of sundry write-off provisions	0	14
Sundry	4	14
	<u>150</u>	<u>176</u>

Additional costs of £6,553,000 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 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 per cent.

Income from investments	7	Listed 1998-99 £000	Listed 1997-98 £000
Fixed asset investments		702	730
Current asset investments		149	264
		<u>851</u>	<u>994</u>

There was no income from unquoted investments.

Included in the above figures is £15,523 (1997-98: £nil) for amounts relating to foreign exchange profits.

Profit/(loss) on the sale of investments	8	Listed 1998-99 £000	Listed 1997-98 £000
This comprises:			
Fixed asset investments		5,364	550
Current asset investments		2	4
		<u>5,366</u>	<u>554</u>

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

Interest receivable	9	1998-99 £000	1997-98 £000
Bank interest received		21	32

Tangible fixed assets	10	Improvements to Short Leasehold Property £000	Office Equip- ment £000	Office Fittings £000	Total £000
Cost					
At 1 April 1998		13	11	12	36
Additions		0	2	2	4
Transfers to the Heritage Lottery Fund		(7)	(7)	(6)	(20)
Assets written-off		0	0	0	0
At 31 March 1999		6	6	8	20
Depreciation					
At 1 April 1998		1	2	4	7
Charge for the year		1	3	4	8
Transfers to the Heritage Lottery Fund		(1)	(3)	(2)	(6)
Assets written-off		0	0	0	0
At 31 March 1999		1	2	6	9
Net book value					
At 31 March 1998		12	9	8	29
At 31 March 1999		5	4	2	11

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. The value of fixed assets represents a proportionate split of the assets used by the Heritage Memorial Fund and the Heritage Lottery Fund.

No fixed assets were held under finance leases.

During the year a number of fixed assets were transferred to the Heritage Lottery Fund. The transfer, of computer and other equipment and office furniture, took place at net book value. In 1997, the National Heritage Memorial Fund relocated its operations to Holbein Place, London, and disposed of its leases in St. James's. The lease for the new building expires in September, 2009.

Fixed asset investments

11 The National Heritage Memorial Fund was set up as successor to the National Land Fund. The Trustees believe that, of the initial contribution in 1980, the sum of £10 million should be regarded as the residue of that Fund. They decided to invest it in order to maintain its capital value in real terms when compared to the Retail Prices Index. Beyond that, the aim is to achieve sufficient growth in real terms, in sterling, to enable the National Heritage Memorial Fund to meet its obligations, which reflect international price movements. To this end, investment can be made outside the United Kingdom. A table in note 12 summarises the regional investment spread. A change in policy occurred during the year resulting in the significant movement in the regional analysis of investment. In order to make this change there was a much higher turnover of investments in the year resulting in an unusually high profit on the sale of investments. Trustees have also decided that, in defined circumstances, they may use the capital, while making provision for the long-term investment target to be met.

Fixed asset investments comprise this endowment fund, as designated by the Trustees. A proportion of this fund is held in cash 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 the Trustees, by Fleming Investment Management Limited. The Trustees are not required to adopt the Trustee Investment Act 1961 when considering investment policy.

Fixed asset investments—analysis

	12	Cost and Net Book Value £000	
At 1 April 1998			22,835
Additions			22,477
Disposals			<u>(17,433)</u>
At 31 March 1999			<u>27,879</u>
Net book value:		1998-99 £000	1997-98 £000
Listed on The London Stock Exchange		20,624	7,977
Unlisted investments		7,255	<u>14,858</u>
		<u>27,879</u>	<u>22,835</u>

Unlisted investments comprise unit trusts and Government stock.

The market value, as at 31 March 1999, of the endowment fund's investments is disclosed below according to their stock exchange classification.

	1998-99 1998-99 Cost £000	1998-99 Market value £000	1997-98 Market value £000
Building and construction	400	389	343
Building materials	128	131	276
Electronic and electrical equipment	153	265	140
Engineering	542	578	424
Engineering (vehicles)	255	494	289
Support services	768	993	255
Breweries, Pubs and Restaurants	297	257	150
Alcoholic beverages	341	358	377
Food producers	442	511	416
Food retailing	457	444	569
Leisure and hotels	622	679	315
Media	1,106	1,316	315
Retailers general (stores)	665	755	623
Chemicals	175	160	74
Electricity	639	590	216
Gas distribution	352	426	144
Transport	1,076	1,146	362
Telecommunications	1,491	2,602	1,038
Diversified industrials	0	0	52
Health care	165	205	141
Pharmaceuticals	1,607	2,763	1,384
Distributors	47	43	0
Oil, integrated	975	1,645	1,199
Banks	2,323	3,479	2,228
Other financial	129	150	0
Insurance	435	422	689
Life assurance	664	908	598
Property	345	345	452
Water	352	310	276
UK unit trusts, property trusts and managed funds	2,093	2,535	1,671
Overseas unit trusts and bonds	5,163	7,193	19,780
Government stock	3,672	3,672	0
	<u>27,879</u>	<u>35,764</u>	<u>34,796</u>

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

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

	1998-99 per cent	1997-98 per cent
UK	81	39
Europe (excluding UK)	8	12
North America	6	24
Japan and Far East	4	21
Latin America	1	3
Global	0	1
	<u>100</u>	<u>100</u>

Debtors

13 These comprise:

	1998-99 £000	1997-98 £000
Loans to heritage organisations	65	445
Provision for doubtful recovery	0	(100)
Prepayments and accrued income	182	127
	<u>247</u>	<u>472</u>

Under the National Heritage Act 1980, the Trustees can make loans for certain purposes. Included in loans to heritage organisations, outstanding at 31 March 1999, was £30,000 (*31 March 1998: £65,000*) due after more than one year. Interest is chargeable, at the discretion of the Trustees, on loans overdue for payment.

The provision for doubtful recovery of a loan was utilised in the year when the loan to which it related was written off.

Included in prepayments and accrued income is £473 (*1997-98: £1,000*) representing outstanding season ticket loans to employees of the National Heritage Memorial Fund.

The movement on loans during the year was as follows:

	1998-99 £000	1997-98 £000
Balance of loans to heritage organisations at 1 April 1998	445	560
Amounts re-imbursed by heritage organisations during the year	(60)	(65)
Loans converted to grants	(220)	(50)
Written off	(100)	0
Balance at 31 March 1999	<u>65</u>	<u>445</u>

Current asset investments	14		Cost and Net Book Value £000
		At 1 April 1998	3,134
		Additions	5,362
		Disposals	(7,220)
		At 31 March 1999	<u>1,276</u>
			1998-99 1997-98
		Cost	£000 £000
		Listed on The London Stock Exchange	1,276 3,134
		Unlisted investments	<u>0 0</u>
			<u>1,276 3,134</u>

Current asset investments are managed, on behalf of the Trustees, by the National Investment and Loans Office.

The market value, at 31 March 1999, of the current asset investments is disclosed below according to their stock exchange classification.

	1998-99	1998-99	1997-98
	Cost	Market	Market
	£000	value	value
	£000	£000	£000
Government stock	<u>1,276</u>	<u>1,294</u>	<u>3,152</u>

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

Creditors: amounts falling due within one year	15		1998-99 £000	1997-98 £000
		Operating creditors	5	5
		Other creditors including taxation and social security	9	0
		Accruals and deferred income	48	28
			<u>62</u>	<u>33</u>

None of the liabilities of the National Heritage Memorial Fund were secured.

Provision for liabilities and charges	16 Pensions and similar liabilities	1998-99 £000	1997-98 £000
	Provision at 31 March	318	293
	Net transfers into the scheme	15	5
	Actuarial adjustment (see note 5)	35	0
	Increase to provision based upon payroll costs	10	20
	Pension payments made	(3)	0
	As at 31 March	375	318

There has been an increase in the provision for pension liabilities because, as discussed in note 5, the National Heritage Memorial Fund does not operate a separate pension scheme. Consequently, no payments are made to external bodies to fund the pension liabilities. The comparative figure, for pension payments made, is zero because amounts paid were not charged to the provision in previous periods.

Grant commitment reserve	17	1998-99 £000	1997-98 £000
	At 1 April	2,620	3,445
	Grants paid in the year	(4,735)	(3,112)
	Commitments created in the year	5,511	2,600
	De-commitments	(10)	(313)
	At 31 March	3,386	2,620

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

	1998-99 £000	1997-98 £000
in one year	3,386	2,620
in two to five years	0	0
in more than five years	0	0
	3,386	2,620

Commitments	18 Annual commitments of the National Heritage Memorial Fund under operating leases are as follows:	1998-99 £000	1997-98 £000
	Short leasehold property		
	Expiring within one year—gross	8	0
	—recharged to the Heritage Lottery Fund	(8)	0
		0	0
	Expiring in years two to five—gross	25	0
	—recharged to the Heritage Lottery Fund	(24)	0
		1	0

Expiring thereafter—gross	600	600
—recharged to the Heritage Lottery Fund	(594)	(588)
	<u>6</u>	<u>12</u>
	<u>7</u>	<u>12</u>
	1998-99	1997-98
	£000	£000
Other operating leases		
Expiring within one year		0
Expiring in years two to five—gross	91	82
—recharged to Heritage Lottery Fund	(90)	(80)
		<u>1</u>
Expiring thereafter		<u>0</u>
		<u>1</u>
Capital commitments not provided in these accounts are as follows:		
	1998-99	1997-98
	£000	£000
Contracted for	0	1
Approved, but not contracted for	0	0
	<u>0</u>	<u>1</u>

Notes to the cash flow statement

19(a) Reconciliation of operating surplus to net cash inflow from operating activities	1998-99	1997-98
	£000	£000
Operating (deficit)/surplus	(2,919)	1,561
Add back non-cash items:		
—depreciation	8	6
—movement in provisions	57	40
Decrease in debtors (excluding capital and investments)	278	141
Increase/(decrease) in non-capital creditors	29	(3,314)
Net cash outflow from operating activities	<u>(2,547)</u>	<u>(1,566)</u>

(b) Capital expenditure and financial investment

	1998-99 £000	1997-98 £000
Payments to acquire tangible fixed assets	(4)	(54)
Payments to acquire fixed asset investments	(22,477)	(8,833)
Receipts from sales of tangible fixed assets	14	22
Receipts from sales of fixed asset investments	22,797	6,730
	<u>330</u>	<u>(2,135)</u>

(c) Management of liquid resources

	1998-99 £000	1997-98 £000
Payments to acquire current asset investments	(5,362)	(391)
Receipts from sales of current asset investments	7,222	1,640
	<u>1,860</u>	<u>1,249</u>

(d) Analysis of changes in net funds

	At 1 April 1998 £000	Cash flows £000	Other changes £000	At 31 March 1999 £000
Cash at bank	607	462	0	1,069
Current asset investments	3,134	(1,860)	2	1,276
Total net funds	<u>3,741</u>	<u>(1,398)</u>	<u>2</u>	<u>2,345</u>

Notional costs

- 20 The Heritage Memorial Fund does not insure its assets under Government Accounting rules. The Heritage Memorial Fund is provided with funds from grant-in-aid. Notional costs for insurance and the cost of capital were 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

- 21 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 Environment, Northern Ireland.

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.

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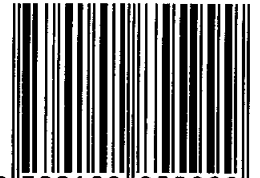
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