



1	Foreword by Dame Liz Forgan, Chair of the National Heritage Memorial Fund
3	Interview with Stephen Johnson, Head of the National Heritage Memorial Fund
6	On Paul Hill by Stanhope Forbes
8	Newark Torc
9	Cotehele Annunciation Panels
10	Coleridge Family Archive
11	Portrait of Elizabeth Gunning, Duchess of Hamilton by Gavin Hamilton
12	The Blue Rigi by JMW Turner
13	Boar's Head Tureen
14	Windermere Steamboat Collection
16	Ewer and Basin by Elie Pacot
17	Dalhousie Archive
18	Portrait of John Donne
19	Market Rasen Sword Hilt
20	Mary Hamilton Archive
21	Portrait of Samuel Richardson with Second Family by Francis Hayman
22	Aerofilms collection
24	Report of the Trustees and Accounting Officer Management Commentary
27	Financial Review
29	Remuneration Report
31	Statement of Trustees' and Director's Responsibilities
32	Statement on Internal Control
34	Audit Opinion of the NAO on the National Heritage Memorial Fund Accounts
36	Income and Expenditure Account Statement of Recognised Gains and Losses
37	Balance Sheet
38	Cash Flow Statement Reconciliation of Net Cash Flow to Movement in Net Funds
39	Notes to the Accounts
IBC	Chair, Trustees and Management Acknowledgements

**NATIONAL
HERITAGE
MEMORIAL
FUND**



Annual Report and Accounts

For the year ended 31 March 2007

Annual Report

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

Annual Accounts

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

Ordered by the House of Commons to be printed 18 July 2007
Laid before the Scottish Parliament by the Scottish Ministers 19 July 2007

© Crown Copyright 2007

The text in this document (excluding any Royal Arms and departmental logos) may be reproduced free of charge in any format or medium providing that it is reproduced accurately and not used in a misleading context. The material must be acknowledged as Crown copyright and the title of the document specified.

Any queries relating to the copyright in this document should be addressed to
The Licensing Division, HMSO, St Clements House, 2-16 Colegate, Norwich, NR3 1BQ.
Fax: 01603 723000 or e-mail: licensing@cabinet-office.x.gsi.gov.uk.



As everyone who is involved in caring for – and who cares about – the UK's heritage is aware, the pressures on its funding grow more acute by the year. During 2006–07, the National Heritage Memorial Fund once again did its best to use its limited resources to maximum effect in saving precious items for future generations to enjoy.

A masterpiece by the UK's most renowned artist has been secured for a great public collection. JMW Turner's haunting watercolour *The Blue Rigi* will be seen by many thousands of visitors to Tate Britain in years to come – including those who joined in the vigorous public campaign to save the picture, which we are proud to have been able to support. In the Lake District – a popular tourist destination since Turner's day – we have ensured that a unique collection of early steamboats, including the world's earliest mechanically-powered boat, will remain intact and on public display. Grants such as this are about so much more than simply saving treasured historic objects – they connect strongly to the landscape, identity and economic future of the local region.

All this comes at a cost. In 2006–07, we allocated £1.17 million more than the Fund's £5 million grant-in-aid. Even then, we had to be rigorously selective in the projects we were able to fund, since demand for support from NHMF continues to outstrip its resources. We therefore welcome the government's fulfilment of its promise that NHMF's grant will be doubled to £10 million for 2007–08.

The UK urgently needs a well-resourced NHMF as part of a wider strategy for protecting our heritage, complementing the work of the Heritage Lottery Fund and other funding bodies. No one can tell where the next big challenge will come from – whether the Fund will be called on to save a threatened natural

habitat, an irreplaceable work of art or an important archive, like Scotland's Dalhousie Collection for which we gave a grant last year, which would lose much of its significance if it were split up at auction. Our increased grant-in-aid will help NHMF to be prepared and able to act quickly to support heritage in need.

I would like to thank the Trustees and staff of NHMF for their expertise, experience and dedication. As the case studies in this report demonstrate, their work on behalf of the UK's heritage has given us much to celebrate. The commitment and

enthusiasm of the four Trustees who have stepped down in the last year – James Wright, Giles Waterfield, Nicholas Dodd and Primrose Wilson – will be missed. We also owe a debt to Stephen Johnson, who retires this year after six years as custodian of the Fund. His wisdom, ingenuity and evident passion for the treasures he has helped to save have been greatly prized.

A handwritten signature in black ink, consisting of a stylized 'L' followed by a horizontal line and a flourish, and a stylized 'F' followed by a horizontal line and a large loop.

Dame Liz Forgan
Chair



With today's spiralling art market and fierce competition from prospective buyers for other heritage assets, the National Heritage Memorial Fund has 'a difficult pitch to occupy', admits Stephen Johnson. At the same time, the Fund's existence has never been more necessary.

Among the success stories of recent years, he mentions the *Flying Scotsman* and the great Victorian country estate Tyntesfield – at £17.4 million, this was NHMF's largest ever grant and 'a huge test of nerve for us'. All worth it though, because without NHMF these unique pieces of heritage would almost certainly have been lost from public view in the UK for good.

Stephen Johnson retires this summer after almost six years as Head of NHMF. During this time he has overseen some of the Fund's most widely reported, and publicly acclaimed, interventions. But he points out that the work of NHMF involves far more than headline projects such as Tyntesfield. 'One of the main challenges is getting the balance right between the famous

showpiece items and other important projects like archives, which may not have the same instant public appeal.' Similarly, while NHMF has funded many key acquisitions by national museums, he emphasises its simultaneous support for regional collections. 'I'm pleased when we can reunite a piece of local heritage with its community, as we have done this year for the *Newark Torc*, especially as most local museums and galleries today have little purchasing power.'

But isn't this kind of project now handled by the Heritage Lottery Fund, where Stephen Johnson is Director of Operations alongside his NHMF role? 'I have always been keen on seeing heritage belong to and be identified by people, and HLF has certainly opened up the agenda for heritage,

broadening its relevance and the levels of public involvement.' He reflects that some of the projects NMHF funded in its early years, like Big Pit mining museum at Blaenavon, have since turned to HLF for support. At the same time, he explains, HLF's important emphasis on access and learning cannot always be a priority for delicate items or places under threat. 'Take *Skokholm Island*, off the Pembrokeshire coast, where the fragile nature of the wildlife habitat means strict limits on visitor numbers.' Sometimes too, he adds, 'the more complex issues of access and learning cannot be properly considered when there is an urgent deadline to be met. Without NHMF's prompt action, for example, it would not have been possible to secure the very rare 17th-century architect's model of *Easton Neston* house at auction.'

Originally established in 1980, NHMF was the successor to the Land Fund, which had been set up immediately after World War II to secure parts of the UK's heritage in memory of those who had fought and died for it. Over the years, NHMF has adapted to meet changing perceptions and priorities in the world of heritage. Prices, too, have altered: the

best old-master paintings have increased in value by over 20 times since the 1980s. The pattern of NHMF grants has changed accordingly, from a spread of relatively modest awards to a smaller number of more substantial grants.

With limited annual grant-in-aid (though this is promisingly increasing from £5 million to £10 million in 2007–08), NHMF has to 'pick and choose carefully' among worthy cases. 'When outstanding heritage objects come up for sale, the government has mechanisms to provide opportunities for museums and galleries to acquire chance finds of treasure or outstanding items which are likely to be exported. Part of NHMF's role is to help secure these items for the nation where it is appropriate to do so.' The Fund has to make sure, however, that all other possibilities for funding have been explored. 'These days we put a lot of effort into giving pre-application advice, helping people to identify other potential sources of funding and to look at ways of generating local support.' The Fund's role as a 'last bastion' for saving heritage at risk is clearer than ever.

As well as talking with applicants, much time is spent gathering advice from outside experts, assessing applications and other organisational tasks. But there are moments when the business of grant-making admin connects vividly with its end result. One of the high points of his time at NHMF, says Stephen Johnson, was seeing the popular campaign to save the *Macclesfield Psalter* finally succeed in 2005 when NHMF stepped in at the last minute. This happened again the following year, with NHMF making up the shortfall in the huge fundraising effort to save Turner's *Blue Rigi*. 'What is great about NHMF is that we can take account not only of an object's quality but also of its iconic status, its value for the imagination. And it is immensely satisfying to see a good result eventually come from decisions taken by the NHMF in the past. In 1993–4 we helped the Fairground Heritage Trust to buy a series of historic fairground rides. After 13 years of perseverance by the Trust, these rides can at last be enjoyed again – and ridden on – by visitors to Dingle's Steam Village in Devon.'

Grants may not always bring an immediate surge in visitor numbers or scope for related educational projects, and their long-term benefits can take time to quantify. Then again, when people talk of 'iconic heritage', they have in mind something unquantifiable. After NHMF (along with contributions from 240,000 schoolchildren) helped the National Railway Museum York to buy the *Flying Scotsman*, Stephen Johnson recalls a trip on the historic locomotive – 'seeing the sheer joy of people travelling like that, by steam train through the Yorkshire countryside.' Uplifting to witness – not easy to put a price on.





Stanhope Forbes

On Paul Hill

Penzance Town
Council

A celebrated British artist who captured the soul of Cornwall's fishing villages with paintings such as *Fish Sale on a Cornish Beach*, Stanhope Forbes (1857–1947) studied at the Royal Academy Schools in London before travelling to Paris in 1880.

While in France, he was exposed to the work of the new 'en plein air' ('in the open air') painters, who placed a great emphasis on the use of natural light and preferred as their subject the untainted surroundings of the countryside. Their work had an enormous impact on Forbes's painting, and in 1884 he arrived in the fishing village of Newlyn, near Penzance, to join the Newlyn School, a growing colony of artists influenced by the new movement. He quickly became a leading member of the School and remained a popular figure in the West Cornwall village until the end of his life.

Painted in 1922, *On Paul Hill* shows a view from the junction between Chywoone (or 'Paul') Hill and the top of Adit Lane in Newlyn, looking over Penzance. This view, with St Mary's Church and the Queen's Hotel in the distance, is still recognisable today, and it is even believed that some of the children in the painting are still living in the area.

The painting was exhibited widely in Forbes's lifetime, first at the Royal Academy, then nationally and abroad, reaching as far as New Zealand. Despite being well-travelled, it is still in pristine condition, having been carefully preserved by a Cornish family for many decades. It will now serve to enrich the collection of Forbes works at the Penlee House Gallery and Museum in Penzance, which specialises in showing Newlyn School paintings.

Found by an amateur treasure hunter near his Newark home with the help of a metal detector, it is tempting to describe this exquisite collar simply as an example of an ancient fashion accessory.

But this rare and exquisite gold neckpiece has an interesting story to tell. It dates back to between 200 and 50 BC and is one of the finest examples of Celtic metalwork ever recovered in the UK. It is believed to have been a highly treasured symbol of power and influence, and would only have been worn by men or women of very high social status.

Torcs are mainly found in northern Europe and the majority have been found in England. This particular one is an exceptional piece of craftsmanship, even by today's standards, and 2,000 years ago it would have been even more so. Silver, copper and gold have been fused to create a deep-yellow gold alloy which has been used to make 50 metres of hand-rolled wires. These have been expertly formed into eight ropes and shaped into a collar. The two cast hollow rings at each end are decorated with intricate spiral patterns and stylised animal and plant forms – a design that flourished all over Europe from the 5th century BC to the 1st century AD.

The Torc, which has been declared treasure under the Treasure Act of 1996, would have received a ceremonial burial, probably as part of a religious ceremony, with its final resting place in a pit near Newark. With the help of NHMF the neckpiece will remain in the Newark area as a lasting testament to the area's rich heritage.



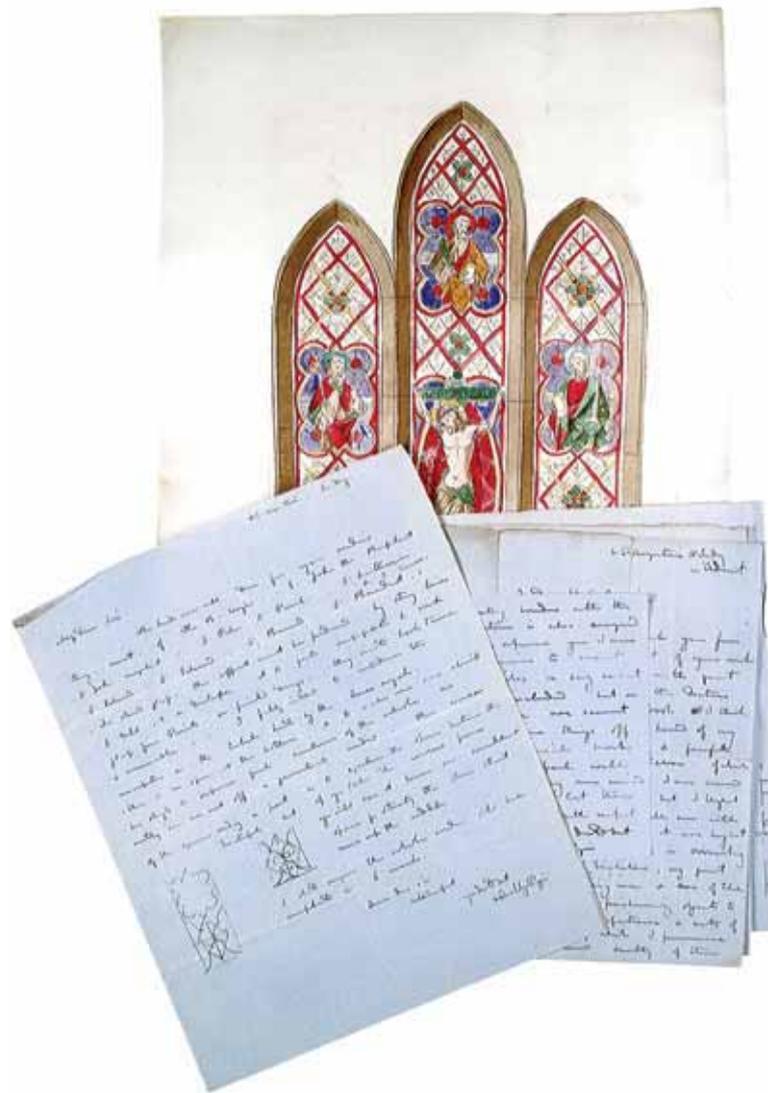


Cotehele Annunciation Panels Museum of London

They survived the Reformation and the Dissolution of the Monasteries, and now they have returned safely to London, their rightful home. Believed to have graced a Westminster Abbey chapel, the Annunciation Panels are adorned with the shields of arms of the Abbey and of George Fascet, Abbot from 1498–1500. Their connection with a documented London figure and one of medieval London's most important establishments makes them an important addition to the Museum of London's collections.

The paintings are a rare example of late 15th-century Christian art, and would originally have formed the wings of an altarpiece. A third and central panel, which may have portrayed the Virgin and Child, is lost, but the surviving pair are extremely significant in their own right. The oil-painted oak panels are testament to the high-quality religious artwork available to wealthy medieval Londoners and convey the importance of religion in their lives. The Annunciation scene is depicted in glowing colours, with the Archangel Gabriel on the left panel and the Virgin Mary on the right, and is beautifully preserved. Illuminated by candles in its original setting, the 'cloth of gold' background would have provided a shimmering setting against which the figures would appear to step out toward the viewer with an uncanny, lifelike quality.

Religious turmoil is a key theme in the Museum's medieval London gallery, but a lot of the objects on display are generally of a much smaller and more personal nature. The Westminster Panels complement these displays and add a little grandeur to the glamour, sleaze and disease that make up the Museum's story of medieval life in the capital.



Coleridge Family Archive

British Library

“There was some screw loose in the marvellous and on the whole admirable machine,” said Samuel Taylor Coleridge’s son Derwent of his own father. His bemusement and affection for the great Romantic poet and the way he was seen by other relatives are revealed for the first time in the extensive personal archive of the Coleridges which has now left the family’s private ownership.

A real treasure trove, its documents span from the mid-18th to the early 20th century. The highlights include a previously unknown autographed manuscript by Coleridge, as well as copies of his verse made by his nephew, Sir John Taylor Coleridge, as a schoolboy, which literary scholars will be able to compare with published versions. There are also numerous descriptions and reminiscences of the poet in the correspondence and diaries of other family members.

But the importance of this rich collection does not lie only in the new material relating to the poet himself. The journals and court-room notes of Sir John (1790–1876), barrister and judge, record his long legal career and the cases tried by him, and later his son and grandson. Papers relating to Sir John’s son, who became Lord Chief Justice of England, will also be of interest to lawyers. The correspondence of a great number of prominent Victorians who were friends of the Coleridges, including the poet Matthew Arnold, the prime minister WE Gladstone, Cardinal Manning and architect AW Pugin, is also contained within the archive.

Gavin Hamilton
Portrait of Elizabeth
Gunning, Duchess of
Hamilton
Scottish National
Portrait Gallery

This full-length portrait of Elizabeth Gunning by Scottish painter Gavin Hamilton captures one of the most celebrated beauties of the day. Elizabeth (1733–1790) and her sister Maria were accomplished actresses who starred in London theatre shows and were presented at the royal court. Famed for their beauty, they frequently drew crowds and courtiers in both their professional and social circles. Elizabeth met the 6th Duke of Hamilton at a ball and after a whirlwind romance was married to him on St Valentine's Day in 1752.

Painted in 1752–53, the portrait was intended to celebrate the sitter's marriage to the Scottish Duke. But it did much more than that, captivating Scotland and establishing the young Elizabeth as an 18th-century icon of beauty. The portrait was extremely well-known at the time as it was copied in engravings, and the image crafted by Gavin Hamilton came to be considered as the embodiment of female perfection. Indeed, this work sealed Hamilton's reputation as one of Britain's most accomplished young portrait painters.

Held in the family's private collection for two centuries, the portrait now hangs between the paintings of two fellow Scottish icons – poet Robert Burns and fiddler Neil Gow – in the Scottish National Portrait Gallery, which also holds a painting of the Duchess's son Douglas, 8th Duke of Hamilton, and a full-length portrait of her youngest daughter, Lady Charlotte Campbell, painted in 1789.



JMW Turner
The Blue Rigi
Tate

JMW Turner (1775–1851) is considered one of the greatest painters Britain has ever produced and the precursor of Impressionism. His ground-breaking use of watercolour, which spanned his career, culminated in the early 1840s in a series of transcendent views of Swiss lakes and mountains. Chief among these are the three views of Mount Rigi as seen from Lake Lucerne. Each shows the mountain at a different time of day and is characterised by a defining colour or tone – dark, blue and red.

Painted in 1842, *The Blue Rigi* is an attempt to capture the moment just before dawn when the sun is beginning to chase away the cool darkness of night. Through subtly different washes of blue and masterful control of light and shade the artist recreates the magical quality of the moment and its tranquil atmosphere, with the morning mist veiling the Rigi and the glass-like water carrying the mount's still reflection. The calm scene is disturbed by sudden movement as a gunshot spurs a pair of dogs to leap from a small boat in the foreground towards a group of startled ducks.

Considered the most important watercolour to appear at an auction for over 50 years, *The Blue Rigi* also became the most expensive British watercolour in 2006 when it was sold for £5.8 million. Over 11,000 people from all over the UK and as far away as Singapore, the United States, Japan, Russia and Australia raised £550,000 towards the reduced price of £4.95 million to secure the landmark work for the UK through a variety of methods – from making web and phone donations to buying online brushstrokes from a digital representation of the painting.





Boar's Head Tureen Ashmolean Museum

Established in 1744, the Chelsea Porcelain Factory was the most important of its kind in 18th-century England, and before its closure in 1769–70 it had produced some of the finest examples of rococo art in the country. Chelsea soup tureens in the elaborate shapes of swans, hens and vegetables were very popular with contemporary high society, but the Boar's Head tureens were the most ambitious vessels to be produced by the factory. This particular Boar's Head, made around 1755–8, is the only complete example of the extravagant product in a UK public collection and one of only three complete examples worldwide.

The grisly features of the tureen would have caused a stir at the time when it was first produced, and their ability to shock has hardly faded. A hunting sword at its side and the blood oozing from the ears, eyes and mouth of the unfortunate boar seal the rift from the pleasing qualities of many other examples of 18th-century porcelain products. The tureen is also a showcase of the craftsmanship which earned England its reputation as a leading producer of porcelain at the time – the fur, for example, has been modelled through painstaking work in what is an extremely difficult material to mould.

The Ashmolean Museum's collection of English porcelain is built on the Marshall gift of early coloured Worcester porcelain, arguably the finest and most comprehensive of its kind in the world. The tureen is the centrepiece of the Museum's collection of Chelsea porcelain.

Windermere Steamboat Collection

Lakeland Arts Trust

The Windermere Steamboat Collection, deemed one of the world's most important and fascinating groups of historic boats, has been given a new lease of life. It dates back to the 1890s and the heyday of steamboating on the lake, which was a popular holiday pastime for rich Manchester industrialists and their families.

What started as a collection to remember this era now contains a much wider range of boats, including a Georgian yacht. Many of these are in need of urgent conservation, and the delicate operation of lifting 11 of the boats onto dry land and preparing them to be conserved is already underway with the help of the NHMF grant.

Among the 11 are boats with a considerable claim to fame – Britain's oldest yacht is just one of them. Built in 1780 for the Curwen family of Belle Isle, Windermere, it would have competed in races attended by the poets Wordsworth and Coleridge. The boat was tracked down in Southport, where it was being used as a hen house, and returned to its Lake District home by the collection's founder. Dolly, the oldest propelled boat in the world, was built at the time of the Great Exhibition but sank in Ullswater in 1895 and remained there until it was discovered by divers in 1960. And let's not forget the Bat, a small steam launch which in 1904 became the first-ever boat to be steered by remote control.

Images clockwise from top left: the Bat (1891), the Raven (1871), Dolly (1851), the Branksome (1896) and Lady Elizabeth (1900)







Elie Pacot
Ewer and Basin
Victoria and Albert
Museum

This ewer and basin first graced the dining rooms of the great military leader and statesman John Churchill, 1st Duke of Marlborough (1650–1722), at Blenheim Palace and Marlborough House. Churchill – whose career spanned the reign of five monarchs – served during the War of the Great Alliance, was temporarily imprisoned in the Tower of London after falling out of favour with William of Orange, and was eventually made Duke by Queen Anne in 1702.

Ewers and basins were used for washing hands at the table in the days before cutlery was in regular use. Popular during Elizabethan times, they were still made in the 17th and 18th centuries for personal use and for display. This particular ewer and basin were commissioned for the Duke in 1711 and crafted in Lille by the great French silversmith Elie Pacot. They are rare surviving examples of French silver from the period as much was melted down during the reigns of Louis XIV and Louis XV to finance military efforts.

Over the years, the Duke of Marlborough and his wife Sarah amassed a great collection of silver which is very well documented. It appears that the Duke used silver and commissioned further pieces from European goldsmiths during his military campaigns, and that he received more while acting as ambassador to the United Provinces and as Groom of the Stole at the English court. He and Sarah also bought silver for domestic use.

These exceptional artefacts are now on display in the V&A's Whiteley Silver Galleries.

The Scottish scholar Harry Maule and his brother James, 4th Earl of Panmure, started collecting medieval manuscripts around 1700. Little did they know then that the family archive would grow to become one of Scotland's most impressive collections of historic papers. An extraordinary ensemble of 13,000 volumes spanning nearly 900 years of Scottish history, the archive passed into the Dalhousie family when Jean Maule, Harry's daughter, married George, Lord Ramsay, son of the 6th Earl of Dalhousie.

The archive includes the earliest Scottish charter still in Scotland, made around 1127 by King David I and relating to Holyrood Abbey, as well as a manuscript of *Scotichronicon*, a chronicle of 15th-century history of Scotland, unique for its illuminated initial letters and additional notes. Seven letters written by George Washington during the French and Indian war are also among the historic items in the collection.

Correspondence by Florence Nightingale revealing her strong views on female nurses working in army hospitals were passed into the family archive by Fox Maule, the 11th Earl of Dalhousie and Secretary of State for War during the war in Crimea. In 1857 Nightingale writes that nurses are "careful, efficient, often decorous, always kind; sometimes drunken, sometimes misconducted" and suggests that "it is desirable to simplify and condense, as much as possible, female service in these hospitals".

These and the archive's other treasures will now become part of the permanent collection of the National Archives of Scotland.





ANNO DOMINI MILLESIQVINGENTIS

OSIRAC DOMITIA

Portrait of John Donne National Portrait Gallery

Many words can be used to describe the different faces of John Donne. An ironmonger's son. A lawyer. A man with a taste for wine and women. A poet and prose writer. A scholar and traveller. A devout-Catholic-turned-Anglican-priest and later Dean of St Paul's cathedral, London. The father of 12 children.

Yet this portrait picks another, more private face, veiled in darkness and mystery. Here Donne – with long, fine fingers, sensual lips and an open collar – is a melancholy figure, perhaps a lover set on seducing the object of his desire. The portrait was completed by an anonymous painter around 1595, when Donne would have been in his early twenties and composing many of his famous love poems, among them *The Flea* and *To His Mistress Going to Bed*.

On his death in 1631, Donne left "that picture of mine which is taken in shadows" to his friend, the 1st Earl of Ancram. Deemed the earliest and most important lifetime oil portrait of the poet, it is one of very few records which show what the celebrated Elizabethan poet looked like. The painting was put up for sale by the Ancram family, the Earl's successors, in late 2005. This hauntingly beautiful work captured the hearts of many viewers and prompted an overwhelming response to the National Portrait Gallery's funds appeal, with public donations totalling £300,000. Not bad for a painting which, until 1959, was wrongly thought to portray medieval poet Duns Scotia.

Market Rasen Sword Hilt British Museum



Dating back to the 7th century AD, the sword hilt fittings found near Market Rasen in Lincolnshire rank among the finest yet discovered in the UK. They are the first fittings of this type from Anglo-Saxon England, and, as there are comparable sword fittings from Italy and Scandinavia, they have raised questions about the mobility of people and goods in the early middle ages.

The gold decorations draw other comparisons, too – they resemble structurally those of the famous sword from the burial site at Sutton Hoo in East Anglia. The Market Rasen fittings are an example of craftsmanship of the highest standard, and the filigree work in particular is remarkable due to the rarity of metalwork of this quality. They are also highly ornamental and would have served as evidence of high social standing – the 'cocked-hat' pommel design in particular, typical in high-status swords, is a demonstration of this. The large garnet settings of the Market Rasen hilt are unusual as garnet was scarce in the 7th century, after supplies from the Indian subcontinent and Sri Lanka dried up.

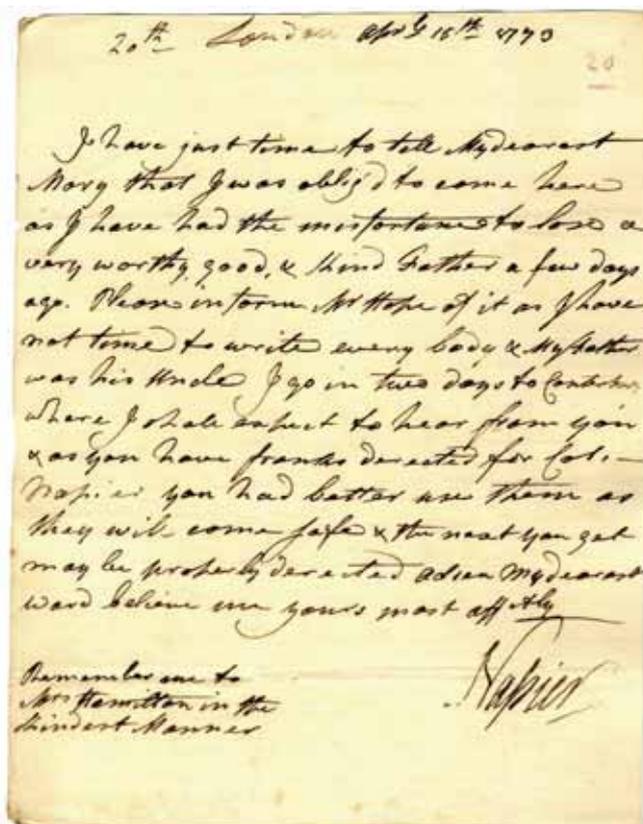
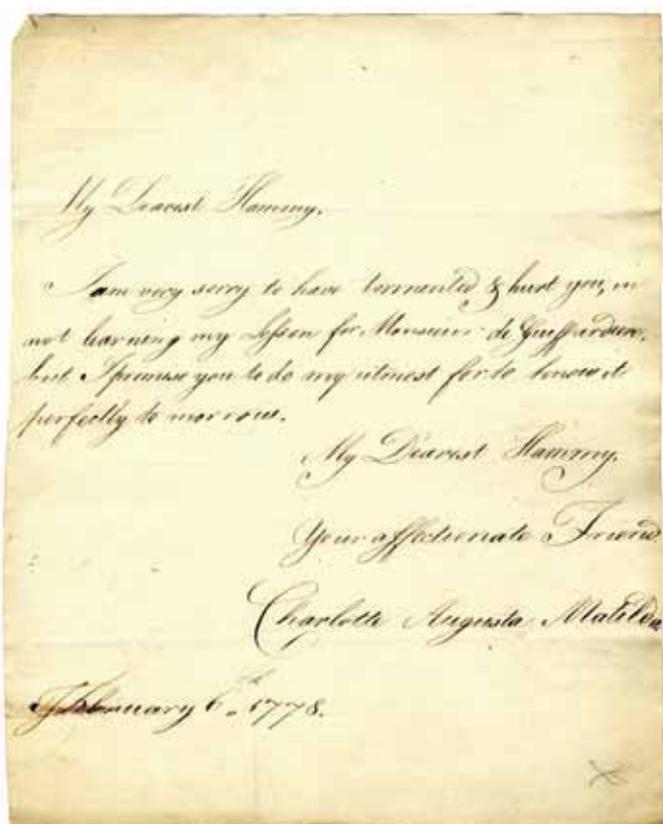
The Market Rasen fittings are an important addition to the British Museum's collection of Anglo Saxon metalwork, and research on them is expected to give insights into medieval workshop practices.

She was a friend of the writer Fanny Burney and moved in the circles of Samuel Johnson, Joshua Reynolds and gothic novelist Horace Walpole, but to the children of George III 18th-century intellectual socialite Mary Hamilton was simply 'Hammy'.

Hamilton (1756–1816) was a sub-governess to the King's daughters between 1777 and 1781 and kept diaries from the start of her post until her marriage in 1785. These paint a vivid picture of daily life in court, and include domestic detail and gossip alongside literary criticism and accounts of social events and admirers, among them the teenage Prince of Wales. Hamilton was also a prolific correspondent and an exceptional collection of letters capturing social life at the turn of the 18th century forms the bulk of the personal archive she left behind.

Some of the correspondence in this archive has been sold and excerpts from Hamilton's diaries published but much of her writing remains in this valuable collection, including her notes on the literature she was reading. These provide a valuable insight into the way certain books were received during the period. Voltaire's poetry, for example, was "in general poor stuff", but she found *The Origin and Progress of Writing and Printing* by Thomas Astle fascinating: "I should like to buy it but my pocket money won't allow of such indulgences". Also featuring in the collection are gossiping letters from Francis, Lord Napier, revealing his views of Hamilton's fellow bluestocking, Elizabeth Carter. The correspondence of Hamilton's fellow courtiers Lady Charlotte Finch, Louisa Cheveley, Charlotte Gunning and others, also serves to provide an intimate insight into life in the royal household.

The John Rylands Library can now provide full public access to the papers which have earned Hamilton comparisons to Samuel Pepys and will undoubtedly establish her as a leading British diarist.





Francis Hayman
Portrait of
Samuel Richardson
with Second Family
Tate

Francis Hayman (1708–1776) was a portraitist, history painter and one of the leading figures in the artistic community of London in the first half of the 18th century. This picture is the type of informal group portrait which inspired Gainsborough and other British artists of this generation, and is thought to be Hayman's finest painting.

The importance of the work lies also in the significance of its subject to British cultural life – the celebrated novelist Samuel Richardson (1689–1761) is pictured here with his second wife and young family. Richardson's first marriage ended in tragedy with the death of his wife and all of his six children. His second marriage to Elizabeth Leake also produced six children, two of whom died in childhood. The painting shows, from left to right, Elizabeth Richardson with the couple's youngest daughter, Sarah, on her knee, then Anne, Martha, and Mary, the eldest child. To their left are Richardson and Miss Elizabeth Midwinter, later Lady Gosling, who was living with the Richardson family at the time. Apart from being exhibited for a brief period in the 1960s, the work has not until now been on public view since it was painted.

In the autumn of 1740 Richardson achieved overnight success with the publication of his first novel, the ground-breaking *Pamela or Virtue Rewarded*. The book, which reveals the moralistic tale of an innocent serving maid in defence of her virtue and takes the form of letters written by the protagonist, went through five editions in its first year. This portrait was probably painted towards the end of 1740, just after the book's publication, and as such captures a fascinating moment in the novelist's life.

Aerofilms collection

Royal Commission on the Ancient Historical Monuments of Scotland

With more than one million photographs and negatives of aerial views over England, Scotland and Wales, this archive forms a unique part of Britain's photographic heritage.

Founded in 1919 by L Willis and airmail innovator Claude Grahame-White, Aerofilms was one of the first commercial aerial photography companies in the world. Sir Alan Cobham, test pilot and long-distance aviator, and innovative cinematographer Claude Friese Greene were linked with the firm, increasing its international prominence. The firm pioneered photogrammetry, the science of mapping from aerial photographs, and its staff and equipment contributed to the war effort in 1940 as part of the Photographic Intelligence Unit. After the war, the company acquired the collections of a number of other aerial photography businesses and added them to its archive.

The present collection documents Britain between 1919 and the late 1990s, capturing from an unusual viewpoint outstanding events from the 20th century as well as changes to rural and urban landscapes. Photographs of the initial stages of the construction of Wembley Stadium (1922), the maiden flight of the R101 airship (1929), the damage caused to London by the aerial bombardments of World War II (right) and the 1951 Festival of Britain all feature in this unique archive. Its numerous aerial views have been published in dedicated volumes such as *British Coastlines from the Air* (1996), and a mosaic of Aerofilms images was used to create the iconic opening sequence of BBC's *Eastenders*.

Threatened with the sale and dispersal of its photographs, the collection has been purchased by English Heritage using their own resources, and by the Royal Commission on the Ancient and Historical Monuments of Wales and the Royal Commission on the Ancient and Historical Monuments of Scotland with NHMF help, and is now being stored at the National Monuments Record Swindon. Its contents are set to be divided on a geographical basis between Scotland, England and Wales, allowing each country to exhibit its share.





Management Commentary

Background information

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

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

Principal activities

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

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

Section 4 of the 1993 Act extends the powers of Trustees to improving the display of items of outstanding interest to the national heritage by

providing financial assistance to construct, convert or improve any building in order to provide facilities designed to promote the public's enjoyment or advance the public's knowledge.

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

Financial Instruments

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

Liquidity risk

In 2006–07, the National Heritage Memorial Fund's income derived from grant-in-aid from the Department for Culture, Media and Sport and from income generated by the endowment fund. The net returns from the endowment fund were positive in the year. The Trustees are satisfied that they have sufficient liquid resources, in the form of their endowment and cash (worth £33.6 million at the Balance Sheet date) to cover all outstanding grant awards of £2.6 million. The Trustees consider that the Fund is not exposed to significant liquidity risks.

Interest Rate Risks

Cash balances, which are used to pay grant commitments and operating costs, are held in instant access variable rate bank accounts, which on average carried an interest rate of 4.6% in the year.

The year end cash balances, held by the Fund in the bank and with their endowment fund investment managers, were £1.9 million.

JP Morgan Asset Management (London) Limited manages the NHMF's endowment and invests in a wide range of assets from marketable shares to cash. At the year end, the market value of the endowment, including cash, was £32.3 million. Returns are dependent upon the stock market and performance of companies included within the portfolio. In the year, the return on the endowment was a rise of 8.7%. The Trustees keep the performance of investments under review. The Trustees consider that the Fund is not exposed to significant interest rate risks.

Foreign Currency Risks

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

Cash flow, price and credit risk

Trustees consider that the Fund is not exposed to anything other than immaterial risks in these areas.

Future developments

In 2007–08 government grant-in-aid will be doubled to £10 million per annum. The position after that date is unknown as we have yet to hear the outcome of the Government's Comprehensive Spending Review. This increased grant-in-aid will give Trustees greater scope to save items at risk of loss. However, Trustees' grant budget for 2007–08 will only be £6.25 million as commitments in previous years have exceeded funds available due to the high demand. The remaining £3.75 million will be used to replenish the endowment fund. As outstanding grant commitments at 31 March 2007 were £2.6 million, Trustees recognise that a grant budget of £6.25 million may require further drawdowns of funds from the endowment fund to ensure that grant payments are made.

Employee consultation

The nature of the operations of the Fund means that grant application processing staff work closely with Trustees. Staff are involved in project evaluation and applicant visits with Trustees. Many members

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

Equal opportunities

As an employer, the National Heritage Memorial Fund abides by equal opportunities legislation. It does not discriminate against staff or eligible applicants for job vacancies on the grounds of gender, marital status, race, colour, nationality, ethnic origin, religious belief, disability, age or sexual orientation. Every possible step is taken to ensure that staff are treated equally and fairly and that decisions on recruitment, selection, training, promotion and career management are based solely on objective and job related criteria. It does not tolerate any form of discrimination, harassment or victimisation. The Fund welcomes job applications from people with disabilities, and currently around 4% of our workforce are people with disabilities. All staff are required to co-operate in making this policy work effectively.

Creditors

The National Heritage Memorial Fund adheres to the Government-wide standard on bill-paying and the CBI Better Payment Practice Code, which is to settle all valid bills within 30 days. In 2006–07, the average age of invoices paid was 12.6 working days. Over 91% of invoices were paid within 30 calendar days.

Pension liabilities

The Fund makes contributions to the pension schemes of staff. Other than making these payments, the Fund has no pension liabilities with the exception of one former member of staff. Trustees consider that the Balance Sheet provision, made for paying

the pension of that former member of staff, is sufficient. Further information is available in the notes to the accounts.

Register of interests

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

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. The National Lottery etc. Act 1993 extends this to the lottery activities of Trustees.

Key Stakeholder

The key stakeholder of the National Heritage Memorial Fund is the Department for Culture, Media and Sport.

Date of authorisation for issue

The accounts were authorised for issue on 17 July 2007, which is the date the accounts were submitted to the Secretary of State for laying before Parliament.

Chair and Trustees of the National Heritage Memorial Fund

Chair
Dame Liz Forgan ²

Trustees

Madhu Anjali
Nicholas Dodd until 10 September 2006
Mike Emmerich
Kathy Gee from 10 September 2006
Catherine Graham-Harrison ²
Doug Hulyer ¹ from 10 September 2006
Tristram Hunt
Dan Clayton Jones
Brian Lang
Derek Langslow ¹
Mike Phillips
Matthew Saunders
Ronnie Spence ¹ from 7 April 2006
Giles Waterfield until 10 September 2006
Richard Wilkin ²
Primrose Wilson until 6 April 2006
Christopher Woodward from 1 November 2006
James Wright until 31 October 2006

Director

Carole Souter ²

¹ Member of Audit Committee

² Member of Finance & Investment Committee

Dame Liz Forgan
Chair

Carole Souter
Director

3 July 2007

Financial Review

In 2006–07, the Trustees of the National Heritage Memorial Fund have considered 20 very varied cases, 16 of which were supported, with grant awards totalling £6.17 million, £1.17 million more than the NHMF's allocation of £5 million for the year from the Department for Culture, Media and Sport. Four of the bids made to the fund this year were rejected.

This year, NHMF was asked to support only three items which were temporarily stopped from export out of the UK following advice from the Reviewing Committee for the Export of Works of Art. One of these was JMW Turner's *The Blue Rigi*, which the Tate Gallery wished to purchase in order to portray the full story of Turner's Lucerne series of watercolours. NHMF awarded a grant of £1.95 million to help secure the painting in March 2007, after a highly successful campaign mounted by the Tate Gallery and the National Art Collections Fund which raised more than £500,000 from public donations to secure this work for the national collection. We were able, in February 2007, to agree a small award to help support the purchase of the Mary Hamilton Archive by the John Rylands Library. However the application for support towards purchase of the other export-stopped item – the Jean-Demosthene Dugourc silk hangings – was not supported on the grounds that they were less clearly a portion of the UK's heritage at risk of loss.

Two other items – the Market Rasen Sword Hilt and the Newark Torc – were finds declared as treasure and for which a matching sum had to be found in order for them to be secured for the nation in a public collection, in the British Museum and in Newark Museum respectively. One further case – the Windermere Steamboat Collection – had been offered to the nation in lieu of tax and an NHMF grant was needed to ensure their early conservation treatment so that their new owners, the Lakeland Arts Trust, could take proper care of them before planning how this asset should be housed and used for the future.

The NHMF grants awarded to these five acquisitions come to just over £2.77 million, which is 45% of the total awarded by the Fund during the year, and demonstrates NHMF's continuing key role in underpinning the mechanisms for securing cultural property at risk of loss to the nation. But the remaining 11 items were no less at risk of loss. They cover a wide range – from the late-16th century portrait of John Donne to the Coleridge family archive, from the Elie Pacot silver ewer and basin to the Aerofilms archive of 20th-century photographs of historical sites and events throughout the UK. In several of these cases, if agreement had not been reached, there was a real prospect that the items would be sold abroad, or the collections would be scattered, and a number of them were secured through the special mechanism of private treaty sales, which provides an incentive for owners to meet expected liabilities by negotiating a special price for the purchase with an accredited national or local museum or other body.

A full list of all the grants awarded is as follows:

Applicant	Acquisition	Grant
National Portrait Gallery	Purchase of a portrait of John Donne, c.1595	£750,000
British Library	Acquisition of the Coleridge Family Archive	£250,000
Tate Gallery	Acquisition of Francis Hayman portrait of Samuel Richardson 1689–1761 with second family	£500,000
Victoria & Albert Museum	Ewer and Basin made by Elie Pacot, Lille, 1711–12	£400,000
Lakeland Arts Trust	Lake Windermere Steamboat Acquisition	£465,596
Penzance Town Council	Purchase of painting 'On Paul Hill' by Stanhope Forbes	£236,000
Museum of London	Acquisition of the Cotehele Annunciation Panels	£100,000
British Museum	Market Rasen Sword Hilt	£70,000
Scottish National Portrait Gallery	Portrait of Elizabeth Gunning, Duchess of Hamilton	£200,000
Newark & Sherwood Museums Service	Acquisition of Newark Torc	£285,000
Royal Commission on the Ancient & Historical Monuments of Scotland	Acquisition of the Aerofilms Collection	£50,000
Ashmolean Museum	Acquisition of Boar's Head Tureen	£75,000
Tate Gallery	Acquisition and public display of 'The Blue Rigi' by JMW Turner (1775–1851)	£1,950,000
National Archives of Scotland	Purchase of the Dalhousie Archive	£800,000
The John Rylands University Library	Purchase of the Mary Hamilton Archive	£4,750
British Museum	Canterbury Astrolabe Quadrant	£30,000

The other three applications which were not supported this year were for a small grant of £18,000 to help the Victoria & Albert Museum purchase a rocking horse, reputed to belong to Charles 1, which was later secured for the museum by other funding; a request for £2.36 million from the Ashmolean Museum for the purchase of Richard Parkes Bonington's View on the Grand Canal, Venice; and a bid from English Heritage for the purchase of a painting for the house at Brodsworth, Jan Wijnants's Landscape with Hunters and Sportsmen, for which £389,500 was requested.

NHMF received grant-in-aid of £5 million, the same as in 2005–06. Outstanding grant commitments at the end of the year amounted to £2.6 million which were covered by the grant-in-aid of £10 million received in April 2007.

NHMF maintains an endowment fund which fell in value by £0.5 million in the year from £32.8 million to £32.3 million due to drawing down £3.75 million during the year to fund grant payments. The underlying performance of the endowment fund was an increase of 8.7%. Trustees are pleased to note that the value of the endowment fund exceeded its original value at today's prices by £0.6 million at 31 March 2007 despite the drawing-down of £3.75 million during the year.

Remuneration Report

Remuneration of the Chair and Trustees

All Trustees were entitled to receive an annual salary for the time spent on the activities of the National Heritage Memorial Fund. In addition, the National Heritage Memorial Fund re-imbursed travel expenses of certain Trustees from their homes to their office of employment in London, Edinburgh, Cardiff or Belfast. The Fund met the tax liability on these expenses.

The remuneration of those Trustees that received payment, including re-imbusement of taxable expenses and the tax thereon, falls into the bands set out on the right.

All Trustees have three-year appointments, potentially renewable for a second term. They are appointed by the Prime Minister. They are not members of the pension scheme utilised by the National Heritage Memorial Fund. No contributions were made by the Fund to a pension scheme on the Trustees' behalf. All Trustees' remuneration was allocated between the Heritage Lottery Fund and the National Heritage Memorial Fund on the basis of 99%:1%. The total remuneration of Trustees in 2006-07 was £239,470 (2005-06 £213,049). The pay and contracts of Trustees are discussed and set by the Department for Culture, Media and Sport.

(Audited information)

	2006-07 £'000	2005-06 £'000
Dame Liz Forgan (Chair)	40-45	40-45
Madhu Anjali	10-15	10-15
Earl of Dalkeith	0	0-5
Nicholas Dodd	5-10	10-15
Mike Emmerich	10-15	10-15
Kathy Gee	0-5	0
Sir Angus Grossart	0	5-10
Catherine Graham-Harrison	5-10	5-10
Doug Hulyer	5-10	0
Tristram Hunt	5-10	5-10
Dan Clayton Jones	20-25	10-15
Brian Lang	20-25	20-25
Derek Langslow	5-10	5-10
Dr Mike Phillips	5-10	5-10
Professor Tom Pritchard	0	0-5
Matthew Saunders	5-10	5-10
Ronnie Spence	20-25	0
Giles Waterfield	0-5	5-10
Richard Wilkin	5-10	0-5
Primrose Wilson	0-5	20-25
Christopher Woodward	0-5	0
James Wright	5-10	5-10

Remuneration of employees (Audited information)

The remuneration of directors was as follows:

	Salary including performance bonus 2006-07 £'000	Salary including performance bonus 2005-06 £'000	Real increase in pension and lump sum £'000	Total accrued pension at age 60 and lump sum £'000	Cash Equivalent Transfer Value (CETV) at 31/3/07 £'000	Cash Equivalent Transfer Value (CETV) at 31/3/06 £'000	Real increase in CETV funded by NHMF £'000
Carole Souter Director	120-125	110-115	0-2.5 plus 2.5-5 lump sum	35-40 plus 110-115 lump sum	648	616	17
Stephen Johnson Director of Operations	100-105	95-100	0-2.5	50-55	1,042	953	40
Judy Cligman Director of Policy	80-85	75-80	0-2.5 plus 2.5-5 lump sum	20-25 plus 60-65 lump sum	348	321	22
Steve Willis Director of Resources & Planning	100-105	95-100	0-2.5 plus 5-7.5 lump sum	40-45 plus 130-135 lump sum	809	754	30

The accrued pension quoted is the pension the member is entitled to receive when they reach 60, or immediately on ceasing to be an active member of the scheme if they are already 60.

Cash Equivalent Transfer Values – A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures, and from 2003–04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the civil service pension arrangements and for which the Cabinet Office's Civil Superannuation Vote has received a transfer payment commensurate to the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Real increase in CETV – This reflects the increase in CETV effectively funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

All senior employees had permanent contracts of employment and were ordinary members of the Principal Civil Service Pension Scheme (PCSPS). Their costs were allocated between the Heritage

Lottery Fund and the National Heritage Memorial Fund on the basis of 99%: 1% (2005–06: 99%: 1%). The pay and contracts of senior employees are discussed and set by the Finance & Investment Committee. (Membership of this committee is disclosed on page 26.) The remuneration of senior managers is performance-related. The sum is based on performance against individual objectives and on overall contribution to corporate strategy and goals. Individual objectives for the Director are set by the Chair of the Trustees, and the Director in turn agrees personal objectives with the 3 function directors. Objectives reflect the strategic and operational goals of the Fund and the contribution expected of each individual senior manager to achieving the goals. The Fund has a performance management system and performance is reviewed in line with this. Performance is reviewed annually in March/April and rated on a scale of 4 different levels of achievement. There is a bonus scheme for the directors which takes into account the Finance & Investment Committee's view of the individual's contribution towards the wider success of the organisation, with particular reference to their management of their own department and their impact on other areas; the individual's impact on Trustees and their effectiveness; and any exceptional contribution or achievement during the year which was not reflected in the key objectives for the year. This policy is expected to continue in future years. Senior management are appointed on open-ended contracts with notice periods of no more than 6 months. In the event of considering termination payments, the Fund would adhere fully to the rules of the Civil Service Compensation Scheme and any associated guidance from Treasury or DCMS.

Carole Souter
Director

3 July 2007

Statement of Trustees' and Director's Responsibilities

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

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

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

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

So far as the Accounting Officer is aware, there is no relevant audit information of which our auditors are unaware. The Accounting Officer has taken all steps that she ought to have taken to make herself aware of any relevant audit information and to establish that our auditors are aware of that information.

Dame Liz Forgan
Chair

Carole Souter
Director

3 July 2007

Statement on Internal Control

Scope of responsibility

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

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

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

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

The annual operating plan of the NHMF – the Business Plan – is discussed with our sponsor department, the Department for Culture, Media and Sport (DCMS). DCMS has also set Policy and Financial Directions with which we have to comply in our Lottery activities. We also operate in line with an agreed Management Statement and Financial Memorandum based upon a template devised by the Treasury. This includes regular meetings with senior officers of DCMS and with fellow Lottery distributors.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the NHMF's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Fund for the year ended 31 March 2007 and up to the date of approval of the annual report and accounts and accords with Treasury guidance.

Capacity to handle risk

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

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

Staff, from middle management upwards, have received training in risk management techniques.

The risk and control framework

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

and, where possible, mitigate the risk. Management Group reviews the effectiveness of their work on a quarterly basis. The Audit Committee also regularly reviews and questions the activities of risk owners.

In 2006–07, the NHMF considered the following to be the most significant areas of risk:

- i) decline of our income beyond expectations;
- ii) failure of awarded grants to meet our strategic objectives;
- iii) failure of our strategy to keep pace with the needs of the heritage and changes in the external environment, and therefore lack of support for it by our stakeholders;
- iv) failure to set and follow efficient procedures correctly or consistently giving rise to the risk of fraud or of making perverse decisions open to challenge in law;
- v) failure to recruit and retain staff of sufficient calibre;
- vi) lack of adequate acknowledgement of the HLF/NHMF contribution.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and senior management within the NHMF who have responsibility for the development and maintenance of the internal control framework, and comments made by the

external auditors in their management letter and other reports. I receive guidance from both the Board of Trustees and the Audit Committee, which sees reports from both the internal and external auditors, and a plan to address weaknesses and ensure continuous improvement of the internal control system is in place.

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

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

Carole Souter
Director

3 July 2007

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

I certify that I have audited the financial statements of the National Heritage Memorial Fund for the year ended 31 March 2007 under the National Heritage Act 1980. These comprise the Income and Expenditure Account, the Balance Sheet, the Cashflow Statement and Statement of Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Trustees, Director and Auditor

The Trustees and Director (as Accounting Officer) are responsible for preparing the Annual Report, the Remuneration Report and the financial statements in accordance with the National Heritage Act 1980 and directions made thereunder by the Secretary of State for Culture, Media and Sport, with the consent of HM Treasury, and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of the Trustees' and Director's Responsibilities.

My responsibility is to audit the financial statements and the part of the Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited 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, with the consent of HM Treasury. I report to you whether, in my opinion, certain information given in the Annual Report, which comprises the

Chair's Foreword, the Management Commentary, the Financial Review and the Remuneration Report, is consistent with the financial statements. I also report 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.

In addition, I report to you if the National Heritage Memorial Fund has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the National Heritage Memorial Fund's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or form an opinion on the effectiveness of the National Heritage Memorial Fund's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the

Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Trustees and Director in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the National Heritage Memorial Fund's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error 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 also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinions

Audit opinion

In my opinion:

- i) the financial statements give a true and fair view, in accordance with the National Heritage Act 1980 and directions made thereunder by the Secretary of State for Culture, Media and Sport, with the consent of HM Treasury, of the state of the National Heritage Memorial Fund's affairs as at 31 March 2007 and of its deficit for the year then ended;

- ii) the financial statements and the part of the Remuneration Report to be audited 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, with the consent of HM Treasury; and
- iii) information given within the Annual Report, which comprises the Chair's Foreword, the Management Commentary, the Financial Review and the Remuneration Report, is consistent with the financial statements.

Audit opinion on regularity

In my opinion, 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.

Report

I have no observations to make on these financial statements.

John Bourn

Comptroller and Auditor General

5 July 2007

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

Income and Expenditure Account for the year ended 31 March 2007

	Notes	2006-07 £'000	2005-06 £'000
Sundry operating income	3		93
New awards made in the year	14	(6,166)	(6,293)
De-committed awards	14	78	913
		(6,088)	(5,380)
Staff costs	4	(50)	(51)
Depreciation	10	(2)	(2)
Other operating charges	6	(119)	(104)
		(171)	(157)
Operating expenditure		(6,259)	(5,537)
Operating deficit		(6,257)	(5,444)
Income from investments	7	848	839
Profit on the sale of investments	8	1,195	389
Interest receivable	9	62	108
Non-operating income		2,105	1,336
Net surplus before notional costs		(4,152)	(4,108)
Notional costs – capital	17	(1,057)	(914)
Net deficit including notional costs		(5,209)	(5,022)
Reversal of notional costs		1,057	(914)
Deficit transferred to the accumulated fund		(4,152)	(4,108)

Following a change in the Government's Financial Reporting Manual, we are now required to exclude grant-in-aid from the face of the Income and Expenditure Account. It is now accounted for as a movement on reserves on the Balance Sheet. The comparatives have been adjusted to reflect this.

Statement of Recognised Gains and Losses for the year ended 31 March 2007

	Note	2006-07 £'000	2005-06 £'000
Movement on revaluation reserve	19	556	5,856

The income and expenditure account excludes the Lottery activities of the National Heritage Memorial Fund, which are separately reported in the accounts of the Heritage Lottery Fund. All figures shown relate to continuing activities.

The notes on pages 39 to 48 form part of the accounts.

Balance Sheet
as at 31 March 2007

	Notes	£'000	2006-07 £'000	2005-06 £'000
Fixed assets				
Tangible fixed assets	10	3		4
Investments	11	31,700		31,791
			31,703	31,795
Current assets				
Debtors	12	5		4
Cash at bank and in hand		1,248		66
Cash at JP Morgan Chase Bank	11	621		932
			1,874	1,002
Creditors: amounts falling due within one year	13		(38)	(350)
Grant commitments due within one year	14		(2,644)	(2,958)
Net current assets			(808)	(2,306)
Total assets less current liabilities			30,895	29,489
Provision for liabilities and charges				
Pensions and similar liabilities	5		(1)	(1)
Total net assets			30,894	29,488
Revaluation reserve	19		12,122	11,566
Accumulated fund				
Accumulated fund brought forward		17,922		17,028
Grant-in-aid		5,002		5,002
Result for the year		(4,152)		(4,108)
Accumulated fund carried forward			18,772	17,922
			30,894	29,488

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 39 to 48 form part of the accounts.

Following a change in the Government's Financial Reporting Manual, we are now required to exclude grant-in-aid from the face of the Income and Expenditure Account. It is now accounted for as a movement on reserves on the Balance Sheet. The comparatives have been adjusted to reflect this.

Dame Liz Forgan
Chair

Carole Souter
Director

3 July 2007

Cash Flow Statement for the year ended 31 March 2007

	Notes	2006-07 £'000	2005-06 £'000
Operating activities			
Cash from sundry operating income	3	2	388
Cash paid to and on behalf of employees		(49)	(51)
Cash paid to suppliers		(434)	(116)
Cash paid to grant recipients	14	(6,402)	(6,021)
Net cash outflow from operating activities	16a	(6,883)	(5,800)
Returns on investment and servicing of finance			
Interest received		62	108
Dividends received		833	731
Net cash inflow from returns on investments		895	839
Capital expenditure and financial investment	16b	1,857	(118)
Cash flow before financing	16c	(4,131)	(5,079)
Financing through grant-in-aid		5,002	5,002
Increase/(decrease) in cash		871	(77)

Reconciliation of Net Cash Flow to Movement in Net Funds for the year ended 31 March 2007

	2006-07 £'000	2005-06 £'000
Increase/(decrease) in operating cash in the period	871	(77)
Cash used to increase liquid resources	0	0
Changes in net funds	871	(77)
Net funds at 1 April 2006	998	1,075
Net funds at 31 March 2007	1,869	998

The notes on pages 39 to 48 form part of the accounts.

Following a change in the Government's Financial Reporting Manual, we are now required to exclude grant-in-aid from the face of the Income and Expenditure Account. It is now accounted for as a movement on reserves on the Balance Sheet. The comparatives have been adjusted to reflect this.

1. Statement of accounting policies

a) Accounting convention

These accounts are drawn up in a form directed by the Secretary of State and approved by the Treasury. They are prepared under the modified historic cost convention. Without limiting the information given, the accounts meet the accounting and disclosure requirements of the Companies Act 1985, generally accepted accounting practices in the United Kingdom (UK GAAP) and the disclosure and accounting requirements contained in the Financial Reporting Manual, so far as those requirements are appropriate, and Accounts' Directions issued by the Secretary of State for Culture, Media and Sport in October 2002. The National Lottery Accounts' Direction issued by the Secretary of State specifically excludes the preparation of consolidated accounts. Copies of the Lottery and Memorial Accounts' Directions may be obtained from the Secretary to the Trustees, 7 Holbein Place, London SW1W 8NR.

b) Government grants – change of accounting policy

Government grants are treated as financing because they are regarded as contributions from a controlling party which gives rise to a financial interest. This is done by making an adjustment to the accumulated income and expenditure account. The policy change occurred in 2006–07 and was brought about by a revision to the Government's Financial Reporting Manual. Comparatives have also been adjusted. No allocation is made between grants for revenue and capital purposes.

The effect of this change on the certified 2005–06 accounts and the impact of the change on the results of the current year is shown below. Note there is no impact on the net asset position of the NHMF as a result of this change in policy:

	31 March 2006 (per last year's accounts) £'000	Impact of policy change £'000	31 March 2006 (under new policy) £'000
Income & expenditure account			
Operating surplus	£894	(£5,002)	(£4,108)
Balance sheet			
Grant-in-aid received	£0	£5,002	£5,002

The effect of this change on the 2006–07 accounts is:

	31 March 2007 (under old policy) £'000	Impact of policy change £'000	31 March 2007 (under new policy) £'000
Income & expenditure account			
Operating surplus	(£1,255)	(£5,002)	(£6,257)
Balance sheet			
Grant-in-aid received	£0	£5,002	£5,002

c) Fixed assets

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

Short leasehold property – the life of the lease	
Office equipment	– 4–10 years
Office fittings	– 4–10 years

d) Investments

Fixed asset investments are included in the accounts at current cost. Realised gains and losses are included in the income and expenditure account and are calculated as the difference between sales proceeds and historic cost. Unrealised gains and losses on fixed asset investments are reflected in the revaluation reserve and statement of recognised gains and losses.

e) Allocation of costs

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

f) Taxation

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

g) Pension

The regular cost of providing benefits is charged to the income and expenditure account over the service lives of the members of the scheme on the basis of a constant percentage of pensionable pay. Staff are members of PCS and the percentage of pensionable pay is notified by the Cabinet Office at the start of each financial year. One member of staff, now retired, is not in PCS. A separate provision is maintained for his pension payments. The NHMF has not followed FRS17 with regard to obtaining an actuarial valuation of this person's pension liabilities. This is due to the cost of obtaining such a valuation.

h) Leases

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

i) Grant awards

Positive decisions by Trustees are recognised in the income and expenditure account at the time of award. De-commitments occur when an award or part-award is not taken up by a grantee.

2. Grant-in-aid

	2006-07 £'000	2005-06 £'000
Grant from the Department for Culture, Media and Sport	5,002	5,002

A change to the Government's Financial Reporting Manual means that grant-in-aid is no longer disclosed on the face of the Income & Expenditure Account. It is instead treated as a movement on reserves on the Balance Sheet.

3. Other operating income

This normally entails donations from members of the public and repayments of grant.

4. Staff costs and numbers

	2006-07 £'000	2005-06 £'000
Salaries	38	39
Employer's NI payments	3	3
Payments to pension scheme (see note 5)	7	7
Temporary staff costs	2	2
	50	51

Additional costs of £9,888,000 have been charged to the Heritage Lottery Fund and are reflected in the accounts of that Fund.

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

	2006-07 Number	2005-06 Number
Grant applications	1	1
Finance and administration	0	0
Policy	0	0
Public relations	0	0
	1	1

Additionally, an average of 247 permanent staff were employed on Heritage Lottery Fund activities.

5. Pensions

Pension benefits are provided through the Civil Service pension arrangements (PCSPS). From 1 October 2002, staff may be in one of three statutory based 'final salary' defined benefit schemes (classic, premium, and classic plus). The schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, and classic plus are increased annually in line with changes in the Retail Prices Index. New entrants after 1 October 2002 may choose between membership of premium or joining a good quality 'money purchase' stakeholder arrangement with a significant employer contribution (partnership pension account). Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium and classic plus. Benefits in classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum). Classic

plus is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly in the same way as in classic.

The partnership pension account is a stakeholder pension arrangement with an employer contribution. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to PCSPS cover the cost of centrally-provided lump-sum risk benefit cover (death in service and ill health retirement). There are currently no members of staff with a partnership pension account. In addition, no members of staff retired early on health grounds during the year.

Further details about the Civil Service pension arrangements, which prepare their own scheme statements, can be found at the website www.civilservice-pensions.gov.uk

Although the schemes are defined benefit schemes, liability for payment of future benefits is a charge to the PCSPS. Departments, agencies and other bodies covered by the PCSPS meet the cost of pension cover provided for the staff they employ by payment of charges calculated on an accruing basis. For 2006–07, employer's contributions of £7,214 (2005–06: £7,044) were paid to the PCSPS at the rates set out in the table below. Employer contributions are to be reviewed every four years following a full scheme valuation by the scheme actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

The employer's payments were calculated on the basis of salary banding, as follows:

Salary in 2006–07	% in 2006–07
£18,500 and under	17.1%
£18,501–£38,000	19.5%
£38,001–£65,000	23.2%
£65,001 and above	25.5%

In 2005–06, the one member of staff who had remained a member of the Joint Superannuation Services (JSS) scheme retired. JSS had provided the Fund with details on the expected provisions that the Fund would be required to make each year so as to enable the Fund to meet the pension liabilities that will accrue under the scheme. The last time such advice was given was 31 March 1998. The scheme is a defined benefit scheme. Pension payments made to this former employee will be met from the Fund's cash resources, and not through the JSS, which has no assets. Whilst the pensioner is receiving his pension payments, NHMF has yet to re-imburse the PCSPS pension administrator (who are operating the scheme on behalf of JSS) as they have yet to ask for the funds. New employees of the National Heritage Memorial Fund do not join the JSS, but instead join the PCSPS.

	2006–07 £'000	2005–06 £'000
Provision at 1 April	1	1
Pension payments made	0	0
Provision at 31 March	1	1

6. Operating deficit

The operating deficit is stated after charging the following:

	2006-07 £'000	2005-06 £'000
Auditor's remuneration	7	7
Payments under operating leases		
– leasehold premises	7	8
– hire of plant and machinery	0	1

Additional costs of £10,115,000 have been charged to the Heritage Lottery Fund and are reflected in the accounts of that Fund. As disclosed in note 1 to these accounts, the National Heritage Memorial Fund is required to apportion its costs to the Heritage Lottery Fund. At the end of the financial year, the proportion of joint costs apportioned was 99% to the Heritage Lottery Fund.

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

	2006-07 £'000	2005-06 £'000
Accommodation	11	12
Postage and telephone	2	2
Office supplies, print and stationery	3	3
Travel, subsistence and hospitality	1	1
Professional fees		
– grant related	8	17
– non-grant related	50	50
Public relations and communications	29	14
Sundry	15	5
	119	104

7. Income from investments

	2006-07 £'000	2005-06 £'000
Fixed asset investments	848	839

8. Profit on the sale of investments

	2006-07 £'000	2005-06 £'000
Fixed asset investments	1,195	389

9. Interest receivable

	2006-07 £'000	2005-06 £'000
Bank interest receivable	62	108

10. Tangible fixed assets

	Improvements to short leasehold property £'000	IT equipment £'000	Office fittings £'000	Total £'000
Cost at 1 April 2006	7	15	9	31
Additions	0	1	0	1
Adjustment on disposal	0	(2)	0	(2)
At 31 March 2007	7	14	9	30
Depreciation at 1 April 2006	5	13	9	27
Charge for the year	1	1	0	2
Adjustment on disposal	0	(2)	0	(2)
At 31 March 2007	6	12	9	27
Net book value				
At 31 March 2006	2	2	0	4
At 31 March 2007	1	2	0	3

The Trustees have considered the value of the fixed assets and are satisfied that their value, at 31 March 2007, was not less than their net book value shown in the accounts. The value of fixed assets represents a proportionate split of the assets used by the National Heritage Memorial Fund and the Heritage Lottery Fund. This split is currently 99% Lottery and 1% Memorial.

No fixed assets were held under finance leases.

A review of the current cost values of fixed assets, at 31 March 2007, revealed no material difference to historic cost values. Therefore, no adjustment has been made to reflect current cost values of tangible fixed assets.

11. Fixed asset investments

The National Heritage Memorial Fund was set up as successor to the National Land Fund. The Trustees believed that, of the initial grant-in-aid that established the Memorial Fund, the sum of £10 million should be regarded as the residue of the National Land Fund. They decided to invest it and to maintain its capital value in real terms when compared to the Retail Prices Index. Beyond that, the investment aim is to achieve sufficient growth in real terms to enable the National Heritage Memorial Fund to meet its obligations. To this end, investment can be made outside the United Kingdom. A table below summarises the regional investment spread. The surplus value of the endowment fund (i.e. the excess over the current value of the initial £10 million) is drawn down to fund NHMF's grant-giving. At 31 March 2007, the original £10 million investment would be worth £31.7 million taking into account indexation – the actual market value is £32.3 million.

Fixed asset investments comprise this endowment fund. A proportion of this fund is held in cash (£620,837 at 31 March 2007) and is disclosed in these accounts as a current asset as part of the cash balances of the National Heritage Memorial Fund. These investments are managed, on behalf of NHMF, by JP Morgan Asset Management (London) Limited. The Trustees are not required to adopt the Trustee Investment Act 1961 when considering investment policy.

	2006-07 £'000	2005-06 £'000
Cost and net book value:		
At 1 April	20,225	19,610
Additions	1,144	1,086
Disposals	(1,805)	(579)
Accrued income	14	108
At 31 March	<u>19,578</u>	<u>20,225</u>
Net book value:		
Listed on the London Stock Exchange	0	0
Unlisted investments	19,578	20,225
	<u>19,578</u>	<u>20,225</u>
Cost	19,578	20,225
Market value	31,700	31,791
Unrealised gain	<u>12,122</u>	<u>11,566</u>

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

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

	2006-07 %	2005-06 %
UK	67	73
Europe (excluding UK)	10	9
North America	16	10
Japan and Far East	7	8
	<u>100</u>	<u>100</u>

12. Debtors – all due within one year

	2006-07 £'000	2005-06 £'000
Prepayments and accrued income	<u>5</u>	<u>4</u>

13. Creditors: amounts falling due within one year

	2006-07 £'000	2005-06 £'000
Operating creditors	4	13
Other creditors including taxation and social security	3	322
Accruals and deferred income	31	15
	<u>38</u>	<u>350</u>

None of the liabilities of the National Heritage Memorial Fund was secured. Of the above sums, £5,000 was payable to central government bodies (2005-06: £323,000).

14. Grant commitments

	2006-07 £'000	2005-06 £'000
At 1 April	2,958	3,599
Grants paid in the year	(6,402)	(6,021)
Commitments created in the year	6,166	6,293
De-commitments	(78)	(913)
At 31 March	<u>2,644</u>	<u>2,958</u>

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

	2006-07 £'000	2005-06 £'000
In one year	<u>2,644</u>	<u>2,958</u>

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

	2006-07 £'000	2005-06 £'000
Balances owing to central Government	1,349	1,752
Balances owing to local authorities	0	22
Balances owing to other bodies	1,295	1,184
	<u>2,644</u>	<u>2,958</u>

15. Commitments

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

	£'000	2006-07 £'000	2005-06 £'000
Short leasehold property			
Expiring within one year – gross	35		0
– recharged to the Heritage Lottery Fund	(35)		(0)
		0	0
Expiring in years two to five – gross	1,156		875
– recharged to the Heritage Lottery Fund	(1,149)		(868)
		7	7
Expiring thereafter – gross	145		446
– recharged to the Heritage Lottery Fund	(145)		(446)
		0	0
		<u>7</u>	<u>7</u>
Other operating leases			
Expiring within one year – gross	3		1
– recharged to the Heritage Lottery Fund	(3)		(1)
		0	0
Expiring in years two to five – gross	19		24
– recharged to the Heritage Lottery Fund	(19)		(24)
		0	0
Expiring thereafter – gross	0		0
– recharged to the Heritage Lottery Fund	(0)		(0)
		0	0
		<u>0</u>	<u>0</u>

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

16. Notes to the cash flow statement

a) Reconciliation of operating deficit to net cash outflow from operating activities

	2006-07 £'000	2005-06 £'000
Operating deficit	(6,257)	(5,444)
Add back non-cash items:		
– depreciation	2	2
– decrease in provisions	0	0
– increase in grant commitment reserve	(314)	(641)
Increase in debtors (excluding capital, investments and other non-operating income)	0	0
(Decrease)/increase in non-capital creditors	(314)	283
Net cash outflow from operating activities	(6,883)	(5,800)

b) Capital expenditure and financial investment

	2006-07 £'000	2005-06 £'000
Payments to acquire tangible fixed assets	1	(0)
Payments to acquire fixed asset investments	(1,144)	(1,086)
Receipts from sales of tangible fixed assets	0	0
Receipts from sales of fixed asset investments	3,000	968
	1,857	(118)

c) Analysis of changes in net funds

	At 1 April 2006 £'000	Pre-financing cash flows £'000	Grant-in-aid £'000	At 31 March 2007 £'000
Cash at bank	998	(4,131)	5,002	1,869

17. Notional costs

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

18. Related party transactions

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

In addition, the National Heritage Memorial Fund and the Heritage Lottery Fund have had a number of material transactions with other Government departments. These transactions have been with entities that regard the Department for Environment, Food and Rural Affairs as their parent department (being the former Countryside Agency), the Treasury (being the Office of Government Commerce) and the National Assembly for Wales (being Cadw).

As set out below, Trustees of the National Heritage Memorial Fund had interests in bodies to which the Fund made grants. Details of interests in Lottery grants are set out in the accounts of the Lottery distribution activities of NHMF.

Tate Gallery: a grant of £500,000 – Acquisition of the Portrait of Samuel Richardson by Francis Hayman. Mike Phillips is employed by the Gallery.

Tate Gallery: a grant of up to £1,950,000 – Acquisition and public display of The Blue Rigi by JMW Turner. Mike Phillips is employed by the Gallery.

The John Rylands University Library: a grant of £4,750 – Purchase of the Mary Hamilton Archive. Mike Emmerich is a former employee of the University of Manchester.

Liz Forgan, the chair of the Trustees, is the chair of a trust owning a newspaper group. The NHMF spent £21,046 directly with this organisation or via a third party. The Trustees are satisfied that in none of the above cases was there any possibility of personal financial gain for the Trustee. There were no other commercial transactions in which Trustees or staff had a material interest or influence.

19. Revaluation reserve

	2006-07 £'000	2005-06 £'000
At 1 April	11,566	5,710
Movement in the year	556	5,856
At 31 March	12,122	11,566

The reserve relates to the difference between book cost and market value of fixed asset investments (see note 11). The difference between book and market value of fixed assets (see note 10) is not material.

20. Financial instruments

Full disclosure under FRS 13, 'Derivatives and other Financial Instruments', is in the Management Commentary.

Chair, Trustees and Management

Board of Trustees

Dame Liz Forgan ² **Chair**
Madhu Anjali
Nicholas Dodd ¹ **until 10 September 2006**
Mike Emmerich
Kathy Gee **from 10 September 2006**
Catherine Graham-Harrison ²
Doug Hulyer ¹ **from 10 September 2006**
Tristram Hunt
Dan Clayton Jones
Brian Lang
Derek Langslow ¹
Mike Phillips
Matthew Saunders
Ronnie Spence ¹ **from 7 April 2006**
Giles Waterfield **until 10 September 2006**
Richard Wilkin ²
Primrose Wilson **until 6 April 2006**
Christopher Woodward **from 1 November 2006**
James Wright ¹ **until 31 October 2006**

Management Group

Carole Souter ² **Director**
Clara Arokiasamy
Stephen Boyce
Karen Brookfield
Kate Clark
Judith Cligman
Stephen Johnson
Louise Lane
Patricia Langley
Helen Palmer
Steve Willis

¹ Member of Audit Committee

² Member of Finance & Investment Committee

Acknowledgements

Photography of the Cotehele Annunciation Panels courtesy of Museum of London; Liz Forgan © Debra Hurford Brown; Stephen Johnson © Bridget Peirson; On Paul Hill by Stanhope Forbes courtesy of Penzance Town Council © Artist's Estate; Newark Torc courtesy of Newark & Sherwood Museums Service; Coleridge Family Archive courtesy of British Library; Portrait of Elizabeth Gunning, Duchess of Hamilton by Gavin Hamilton courtesy of Scottish National Portrait Gallery; The Blue Rigi by JMW Turner courtesy of Tate; Boar's Head Tureen courtesy of Ashmolean Museum; Windermere Steamboat Collection courtesy of Lakeland Arts Trust; Ewer and Basin by Elie Pacot courtesy of Victoria & Albert Museum; Dalhousie Archive courtesy of National Archives of Scotland; Portrait of John Donne courtesy of National Portrait Gallery; Market Rasen Sword Hilt courtesy of British Museum; Mary Hamilton Archive courtesy of The John Rylands University Library; Portrait of Samuel Richardson with Second Family by Francis Hayman courtesy of Tate; Aerofilms collection St Pauls 1950 courtesy of Royal Commission on the Ancient Historical Monuments of Scotland.

Designed and produced by the right stuff
Editorial consultant Michael Bird

Printed by Beacon Press using their **pureprint** environmental print technology. The electricity was generated from renewable sources and vegetable based inks were used throughout. The printer is registered to environmental management system ISO 14001 (certificate no. E9586) and Eco Management and Audit Scheme (EMAS, reg. no. UK-S-00011). On average 90% of any waste associated with this report is recycled.

Printed on Revive 75 Silk, a recycled paper which contains a minimum of 75% recycled waste and is manufactured at a mill accredited with ISO 14001 environmental management system. Please recycle after use.

**NATIONAL
HERITAGE
MEMORIAL
FUND**



7 Holbein Place
London
SW1W 8NR

Telephone
020 7591 6000
Facsimile
020 7591 6001
Textphone
020 7591 6255
Website
www.nhmf.org.uk

Published by TSO (The Stationery Office) and available from:

Online

www.tsoshop.co.uk

Mail, Telephone, Fax & E-mail

TSO

PO Box 29, Norwich NR3 1GN

Telephone orders/General enquiries 0870 600 5522

Fax orders 0870 600 5533

Order through the Parliamentary Hotline *Lo-call* 0845 7 023474

E-mail book.orders@tso.co.uk

Textphone 0870 240 3701

TSO Shops

123 Kingsway, London WC2B 6PQ

020 7242 6393 Fax 020 7242 6394

16 Arthur Street, Belfast BT1 4GD

028 9023 8451 Fax 028 9023 5401

71 Lothian Road, Edinburgh EH3 9AZ

0870 606 5566 Fax 0870 606 5588

The Parliamentary Bookshop

12 Bridge Street, Parliament Square,

London SW1A 2JX

Telephone orders/General enquiries 020 7219 3890

Fax orders 020 7219 3866

E-mail bookshop@parliament.uk

Internet bookshop@parliament.uk

TSO@Blackwell and other Accredited Agents

ISBN 978-0-10-294607-9



9 780102 946079