





## **National Heritage Memorial Fund**

Annual Report and Accounts for the year ended 31 March 2012

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**Front cover:** A peasant prunes a tree in one of four stained-glass roundels purchased by Norwich Castle Museum and Art Gallery with help from the National Heritage Memorial Fund. The 16th-century roundels depict the Labours of the Months

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## Foreword by Dame Jenny Abramsky

Chair of the National Heritage Memorial Fund

It's a fact of life for everyone involved in saving the UK's heritage that we can never be sure where the next challenge will come from. Once heritage is at risk, moreover, decisions and money are needed very fast, with the market often setting the pace. If the National Heritage Memorial Fund (NHMF) did not exist, it would have to be invented now. As the UK's heritage funder of last resort, NHMF combines expertise and responsiveness, moving quickly and decisively when the need arises.

These special qualities of NHMF once again proved their worth in saving outstanding heritage for the nation during 2011–12. Reviewing the year's activity, I am struck by both the calibre and the diversity of the heritage we have helped to save for future generations to learn from and enjoy. It includes a rare manuscript, a poet's home, a masterpiece of Baroque silverware and an Anglo-Saxon gold hoard, as well as rare wetland, stained glass and military heritage. Taken together, these historic objects, buildings and places are eloquent testimony to the scope and flexibility of NHMF's support for heritage under threat.

Our literary heritage is one of the UK's great glories, and NHMF has been active here with two key awards. In the face of fierce international competition, we enabled the Bodleian Library in Oxford to acquire an extremely rare Jane Austen manuscript. This is an early, heavily revised draft of her unpublished novel *The Watsons*, from which we gain vivid insights into the great novelist's creative process – insights that everyone now has a chance to share through the online exhibition *Treasures of the Bodleian*. We also helped to save Yr Ysgwrn, the Snowdonia home of First World War poet and celebrated Eisteddfod bard Hedd Wyn, from being sold. Hardly changed since he was writing there, shortly before his death in the trenches in 1917, the farmhouse and surrounding landscape are a time capsule of early-20th-century rural life in Wales as well as a cultural site of national importance. The poetry of Hedd Wyn reminds us of the founding spirit of NHMF – the desire to provide a fitting memorial for the men and women who have given their lives for the UK in armed conflict.



“NHMF combines expertise and responsiveness, moving quickly and decisively when the need arises.”

While Jane Austen's manuscript joins the roll call of the truly exceptional items of national importance that NHMF has been instrumental in saving, the Fund also serves regional and local heritage well. This year we helped Norwich Castle Museum and Art Gallery acquire an extraordinary set of 16th-century stained-glass roundels depicting the Labours of the Months. Made in Norwich, probably for a local merchant, these are beautiful examples of the stained-glass work for which the city was famed.

NHMF support was also called upon to safeguard natural heritage. A grant from us enabled the Royal Society for the Protection of Birds (RSPB) Scotland to purchase floodplain wetland at Loch Lomond, ensuring that habitat important for Greenland white-fronted geese, ospreys, redpolls and other special species can be conserved.

The success of NHMF in 2011–12 in deploying limited financial resources to support such an impressive range of different types of heritage is a tribute to the commitment of our Trustees, staff, and advisory and investment panels, whom I take this opportunity to thank. Since requests for NHMF funding continue to outstrip supply, the task is never an easy one. In the present funding climate it has become, if anything, more difficult and at the same time more essential than ever. As other sources of support for heritage have been reduced, NHMF's role assumes still greater prominence. NHMF was established as a 'fund of last resort', but this phrase should not blind us to the fact that, in many cases today, it is effectively the UK's frontline for saving our most outstanding heritage in need.

“The success of NHMF in deploying limited financial resources to support such an impressive range of heritage is a tribute to the commitment of our Trustees, staff, and advisory and investment panels.”



**Dame Jenny Abramsky**  
Chair of NHMF

he had nothing more to say for some <sup>time</sup> ~~minutes~~  
 & could only gratify his Eye by occasional  
 glances at her <sup>face</sup> ~~appearance~~. Emma was not  
 inclined to give herself much trouble for his  
 entertainments — & after hard labour of mind,  
 he produced the <sup>remark</sup> ~~quantity~~ of it being a very  
 fine day, & followed it up with the question  
 of "Have you been walking this morning?"  
 "No, my Lord. We thought it too dirty." "You  
 should wear half boots." After another pause,  
 "Nothing sets off a neat ankle more than a  
 half boot. nankin galoshes with black <sup>laces</sup> ~~laces~~  
 — very <sup>well</sup> ~~good~~ — Don't you like half boots?"  
 "Yes — but unless they are so stout as to be <sup>are not fit for</sup> ~~use~~  
 give their beauty, they ~~are not fit for~~  
~~the purpose of~~ country walking." "Ladies  
 should ride in dirty weather. — Do you ride?"  
 "No my Lord." "I wonder every Lady does  
 not ~~ride~~. A woman never looks better  
 than on horseback." "But every woman  
 may not have the inclination, or the means."  
 "If they knew how much it became them, they  
 would all have the inclination — I fancy  
 Miss Watson. — whenever they had the in-  
 clination, the means wd. soon follow."

## Jane Austen's *The Watsons*

Bodleian Library

£894,700

A tale of four sisters in search of love and marriage, Jane Austen's novel *The Watsons* was destined to remain unfinished. She is thought to have written it in Bath around 1804–05. Although never published, much of the story was reworked for her later novels, notably *Mansfield Park*. With its extensive revisions and crossings out, Austen's manuscript of *The Watsons* takes us deep into her creative process. It is as close as you can get to looking over the novelist's shoulder while she writes.





## Keeping an open door – the home of Hedd Wyn

Snowdonia National Park Authority

£350,423

Yr Ysgwrn is a modest stone farmhouse near the village of Trawsfynydd in Snowdonia. Between the 1890s and 2011, the farmland here was owned and worked by the family of major Welsh poet Ellis Humphrey Evans. It was at Yr Ysgwrn that Evans, better known by his bardic name Hedd Wyn, grew up and where he wrote the poems that, by the time of his death at the age of 30, had already won him renown at Eisteddfodau throughout Wales. In 1992 his life was the subject of a feature film, *Hedd Wyn*, which became the first Welsh-language film to be nominated for an Oscar.

Hedd Wyn belongs to a generation of young British poets, including Wilfred Owen and Siegfried Sassoon, whose work speaks for the experience of millions of their contemporaries caught up in the First World War. In his poem *Rhyfel (War)*, Hedd Wyn describes 'the scream of the boys filling the wind, / And their blood mixed with the rain' ('gwaedd y bechgyn lond y gwynt, / A'u gwaed yn gymysg efo'r glaw'). Shortly before he was killed at the Battle of Passchendaele in July 1917, Hedd Wyn completed his great poem *Yr Arwr (The Hero)*, which was to win him a posthumous bardic chair at the National Eisteddfod. At a ceremony attended by the then Prime Minister, David Lloyd George, the chair was draped in black as a symbol of mourning for the poet and for a whole nation's youth.

The 'Black Chair' was to remain at Yr Ysgwrn, along with Hedd Wyn's five other bardic chairs. The family home was carefully preserved as it was in his lifetime and opened to the public. The surrounding land, meanwhile, continued to be managed with the traditional grazing regime of upland farms. In 2011, when advanced years finally obliged the poet's nephew to stop farming, he agreed to sell the house and land to Snowdonia National Park Authority, so that the time-honoured custom of keeping an open door for visitors would continue.

Yr Ysgwrn is a unique time capsule that tells the story of the poet's life as well as the wider history of early-20th-century rural Wales. Had it been sold on the open market, the contents of the house would almost certainly have been dispersed and the farm turned over to modern agricultural management. Instead, NHMF has made it possible to preserve the interior of the house and the traditional agricultural landscape around it as a site of national literary significance that will be enjoyed by many more visitors in the coming years.



Clockwise from main image:  
Hedd Wyn's posthumous bardic chair,  
awarded for his poem *Yr Arwr* in 1917;  
Yr Ysgwrn, early 20th century; Hedd Wyn



## Part of Wards Estate

RSPB Scotland

£172,000

**Below:** A view over Loch Lomond, with the floodplain wetland of the Wards Estate on the right, at the mouth of the River Endrick

The Wards Estate lies in the south-east corner of Loch Lomond, where the River Endrick flows into the loch. As well as woodlands and dry grassland, it includes the largest wetland site in Loch Lomond and The Trossachs National Park. This is one of Scotland's best remaining examples of an intact mosaic of floodplain wetland, a habitat that has become rare in the UK due to intensified land use.

The plants and birdlife here have attracted the attention of naturalists since the early 20th century. The wetland and floodplain provide critically important habitat for species of conservation concern such as Greenland white-fronted goose, water vole, otter, brook and river lamprey and



Atlantic salmon. The site is also home to a wide diversity of breeding birds, including redshank, snipe, curlew, osprey, teal, grasshopper warbler, tree pipit, wood warbler and redstart.

In 1962 the land was included in the Loch Lomond National Nature Reserve (NNR), making it one of the first NNRs in Scotland. It contains Sites of Special Scientific Interest, a Special Protection Area and a Special Area of Conservation. Despite the land's well-established conservation importance, recent years had seen its habitat quality declining to the point when it was considered at risk. In 2011, when the estate was offered for sale on the open market, RSPB Scotland, with support from Scottish

Natural Heritage and Loch Lomond and The Trossachs National Park Authority, set out to acquire the site.

NHMF supported the purchase of 173 hectares (427 acres) of the estate. Together with RSPB Scotland's separate acquisition of the adjoining High Wards Farm, where there are plans to create a small visitor centre, this will secure the land's future as a site of national importance for nature conservation. With its proximity to Greater Glasgow and iconic location popular with tourists around the world, it offers a large audience the chance to access some of the best of Scotland's natural heritage.





## Beckford coffer and stand

Beckford Tower Trust

£148,000

Multi-millionaire, novelist and MP, collector and patron, William Beckford (1760–1844) was one of the most influential and controversial figures of his age. He used his vast inheritance to spend a lifetime indulging his passion for art and architecture. In 1826 he commissioned Beckford's (or Lansdown) Tower from the architect Henry Goodridge to house his art collection. Standing on the upper slopes of Bath, the tower is 37 metres (120 ft) high and represents a startlingly original fusion of the Italian Villa and Greek Revival styles.

Beckford's famously eclectic tastes can also be seen in Goodridge's designs for the tower's opulent furnishing scheme, which included a set of four coffers

and stands inspired by 17th-century French and Italian wedding cabinets and Renaissance architecture. These ensembles functioned as display cabinets and originally occupied the four corners of the tower's most striking interior, the Scarlet Drawing Room.

The tower's furnishings, along with Beckford's art collection, were dispersed after his death. His reputation as an arbiter of taste remains, however, and objects that belonged to him, or that he had a hand in designing, have a special place in modern museum collections. Of the four coffer-and-stand ensembles, only one is known to have survived intact. When this was sold at auction, the Secretary of State deferred an application for an export licence.

With support from NHMF, the Beckford Tower Trust, which runs the Beckford Museum within the tower, seized this unique opportunity to acquire the coffer and its stand. They are now on public display in the building for which they were originally designed and with which they have such strong historical associations.

## Anglo-Saxon gold hoard

### Leeds Museums and Galleries

£95,000

Searching in the Leeds area on two occasions in 2008 and 2009, a metal detectorist unearthed a hoard of gold artefacts. Now known as the West Yorkshire Hoard, it consists of four rings, part of a brooch, half an ingot and a spindle whorl, and is thought to have been buried during the early 11th century, a formative period in British history. It represents an astonishing range of artistic and metalworking skills.

The four rings are extraordinary survivals, providing especially beautiful examples of Anglo-Saxon craftsmanship. The most spectacular ring has a large, lozenge-shaped bezel set with a garnet. It shows little sign of wear and was probably a prestige item belonging to someone of high importance. Another, also in almost perfect condition, is decorated with gold filigree and pellets, while a third bears floral and zoomorphic motifs in niello (a black mixture of copper, silver, and lead sulphides used as an inlay).

**Clockwise from top right:** Filigree and granular ring; lead spindle whorl; fragment from a gold brooch, with intricate cloisonné cells; one half of a gold ingot; filigree ring; niello finger ring; large cabochon ring

Heavy wear to one of these motifs suggests that this ring was regularly worn. The fourth ring is unusually large and has a bezel decorated with intricate spirals and twists of gold wire and granules.

Some pieces in the hoard had evidently survived for a long time before being buried. The brooch fragment has been dated as early as the 7th century; the rings seem to span the 9th to 11th centuries. For much of the Anglo-Saxon era, the Leeds area was part of Danelaw (the northern and eastern region of England under Anglo-Scandinavian dominion). This hoard may have been assembled for the purpose of reworking, or it may represent stolen goods.

With funding from NHMF, Leeds Museums and Galleries were able to acquire the hoard, which is of outstanding regional as well as national significance. It has become a centrepiece of the Leeds Story Gallery in Leeds City Museum, where it plays an important role in illustrating the city's Anglo-Saxon and Viking history. The hoard will also be the focus for events in the Festival of British Archaeology in 2012.



2/ (1082/4)  
Victory June 22<sup>nd</sup>, 1804

My Lord,

It is to redeem the solemn pledge  
I have made, never to omit upon any  
change of administration stating the just  
claim which I consider the battle of Copenhagen  
has to the reward of medals as have been given  
for other great Naval Victories, I therefore  
enclose for your Lordship herewith a statement  
of facts and the letters which passed between me  
and Lord St. Vincent upon that occasion, and  
when your Lordship has leisure time I  
request your perusal of them, and I own  
I expect from you that Justice in recommen-  
ding us to the King which I have endeavoured  
but in vain to obtain from your Predecessor, the  
determination to apply to Lord St. Vincent, suc-  
cessor

Viscount Melville

My Dear Lord

I am very happy to find that your Goodships opinion concerning the consequences of granting a free trade to Ireland coincides so perfectly with my own. I cannot believe that the manufactures of this country for a century to come suffer much from the rivalship of those of Ireland even tho' the Irish should be indulged in a free trade. Ireland has neither the Skill, nor the Stock which could enable her to rival England, and tho' both may be acquired in time, to acquire them completely will require the operation of little less than a century. Ireland has neither coal nor Wood. She formerly seems to have been denied to her by nature, and tho' her soil and climate are perfectly suited for raising the latter, yet to raise it to the same degree as in England will require more than a century. I perfectly agree with your Lordship too, that to crush the industry of so great and so fine a province of the empire, in order to favour the monopoly of some particular towns in Scotland or England, is equally unjust and impolitic. The general Republic and improvement of Ireland might certainly, under proper management, afford much greater resources to Government than can ever be drawn from a few mercantile or manufacturing towns.

All the Irish Parliament sends over the Heads of their

10811

Private

Hotel de Cambasparthe  
Rue de la Harpe N. Rouen  
12 July - 10. p.m.

Mon. 15<sup>th</sup>

My dear Lord

I have only time to write you a line from Calcutta to say that as Bonaparte is now known to be at Rochfort he has requested me to write to our sea-service officers there to express what his wishes are on the subject of endeavouring to seize him. It seems that he is under the protection of the batteries of the John D'Almeida & that it is only by fair means

Robert Melville 761

**Clockwise from main image:** A letter to Melville from Admiral Lord Nelson, written on 22 June 1804 on HMS *Victory*, requesting medals for the Battle of Copenhagen

Dr Adam Smith writing to Henry Dundas, Lord Advocate, about free trade with Ireland (1 November 1779)

John Croker conveys to Robert, 2nd Viscount Melville, Lord Castlereagh's wish to assess the chances of seizing Bonaparte, who was on a frigate at Rochfort (12 July 1815)

## Archive of Viscounts Melville National Records of Scotland

£625,000

With the purchase of the Melville papers by National Records of Scotland (NRS) in March 2012, one of the UK's major political archives in private hands has come into public ownership. Support from NHMF has saved the archive from being sold on the open market and dispersed.

The Melville papers document the emergence of the Dundas family in the late 18th century as the most powerful Scottish dynasty. Between 1774 and 1830 the family held key positions in British politics. Henry Dundas, 1st Viscount Melville, served as Lord Advocate for Scotland, Home Secretary, President of the Board of Control for India, Secretary of State for War and First Lord of the Admiralty; his son Robert, 2nd Viscount, served as President of the India Board and First Lord of the Admiralty. From the American Revolutionary War to the pursuit of British rule in India and the Napoleonic Wars, father and son were at the heart of national and international affairs. Robert's younger son, Richard, had a distinguished naval career, eventually becoming First Sea Lord.

The archive contains a remarkably varied correspondence, which takes us straight to the centre of politics and administration at a critical point in British history. There are significant letters from most principal politicians, soldiers and sailors of the period. The events they document include the fall of Lord North (1778–82), the Regency Crisis (1788–89), the Pitt government's response to domestic unrest and foreign war (1792–1801), naval reform before the Battle of Trafalgar (1804–05), and Napoleon's exile in St Helena after the Battle of Waterloo (1815).

In a letter to Henry Dundas of 1779, Adam Smith, the Scottish social philosopher and pioneer of political economy, urges the advantages of free trade and the evils of monopoly. In 1804, Admiral Nelson reports to the then First Lord of the Admiralty, justifying his dash to Egypt in search of the French fleet. Other correspondence deals with matters as diverse as the defeat of the Indian ruler Tipu Sultan and early attempts to regulate whisky production in Scotland. All in all, the archive occupies 31 metres of shelving, with about 11,000 catalogue entries spanning the 17th to 20th centuries. It is now accessible to the public in NRS's search room and via their website. NRS plan to develop education programmes around the archive and to make images as well as text available online.





## Lord Raby's silver wine cistern

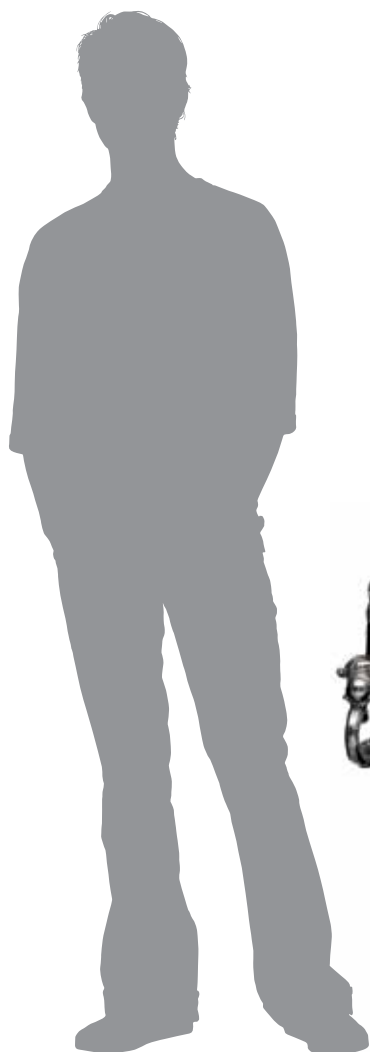
### Leeds Museums and Galleries

£1,832,000

In 1706, when the British diplomat Thomas Wentworth, 3rd Baron Raby, travelled to Berlin to take up his post of Ambassador Extraordinary to the court of the King of Prussia, he took with him an enormous silver wine cooler. Designed to hold wine bottles packed with ice, such objects had a practical function but were also conspicuous status symbols, reflecting the wealth and prestige of the host or – in the case of diplomats – the host's country. Raby had observed similar pieces of banqueting paraphernalia on an earlier visit to the Prussian capital in 1701, and was evidently determined not to be outdone in the grandeur of his ambassadorial plate. In his order for the plate, Raby stipulated that 'the Cistern cant be to big', and asked for any silver left over from smaller items to be added to the allocation for his showpiece wine cooler.

The cistern is a masterpiece of the Baroque goldsmith's craft, commissioned from the London workshop of Philip Rollos the Elder in 1705. With a diameter of 1.3 metres and weighing almost 70 kilograms, it is the largest of three similar vessels in the UK. Working a single sheet of silver of this size takes exceptional skill and had rarely been attempted before. It's possible that massive cisterns of this kind had to be fabricated in copper mills rather than in the goldsmith's workshop.

The sale of Lord Raby's cistern to a foreign buyer for £2.5million in July 2010 set an auction record for English silver plate. In view of its significance to the national heritage, however, the Culture Minister imposed a temporary export ban. This gave Leeds Museums and Galleries time to raise the funds to retain the work in the UK. A grant of £1.83million from NHMF was crucial to the success of this campaign. The cistern is now on display with other fine examples of silver plate of the same era at Temple Newsam, not far from Lord Raby's Yorkshire home at Wentworth Castle.



**Opposite page:** Detail showing one of the wine cooler's lion-shaped handles

**This page:** The cistern's proportions to scale

## Dornier Do 17 recovery Royal Air Force Museum

£165,681

**Below:** A close formation of Dornier Do 17s, photographed at the beginning of the Second World War

Nicknamed 'the flying pencil' for its elegant design, the twin-engine Dornier Do 17 was a mainstay of the Luftwaffe bombing fleets that appeared in the skies of southern Britain in summer 1940. At the end of the Second World War, most Do 17s that hadn't been shot down were scrapped. It was thought that, of the estimated 1,700 planes produced, not a single one survived.

In 2008, however, Wessex Archaeology conducted a sonar survey of the seabed along the Kent coast, which clearly revealed the shape of an aircraft buried beneath the Goodwin Sands. The plane's distinctive outline suggested that it could be a

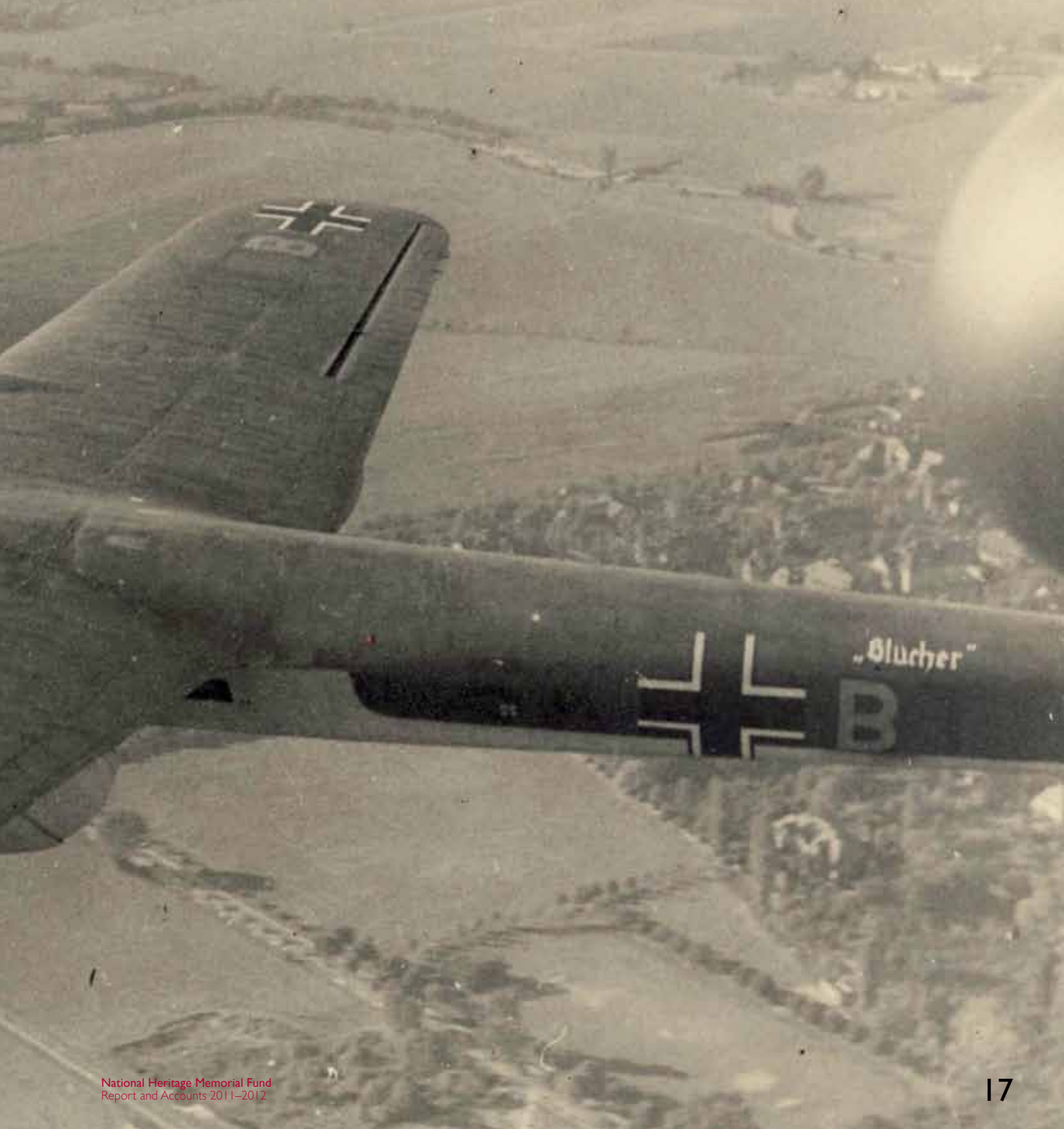


Do 17; further investigation confirmed that this was indeed the case. NHMF is funding the urgent salvage of the wreck, which has become a target for illegal souvenir hunting and is also at risk from the movements of the tide. Once the difficult salvage operation is complete, the plane will be transferred to the Royal Air Force (RAF) Museum, Hendon, for conservation – though not full-scale restoration, as this would compromise the Dornier's original fabric.

Research has pinpointed the exact identity of the plane, which flew with No. 7 Squadron, 3rd Group, Bomber Wing 3 during the Battle of Britain. It was shot down on 26 August 1940 and made a forced

landing on the Goodwin Sands at low tide. Two of the crew of four survived. As the tide rose, the body of the plane was quickly covered by the shifting sands. It has been preserved substantially intact, with major damage only to the forward cockpit and observation windows.

After conservation treatment, the Dornier will go on public display at the RAF Museum. As an original artefact of the war and a unique example of this type of light bomber, it will add a powerful new dimension to the museum's coverage of the Battle of Britain, standing as a memorial to the loss of life on both sides during the conflict.



## 16th-century stained-glass roundels Norwich Castle Museum and Art Gallery

£93,000

These exquisite stained-glass roundels are vivid miniature masterpieces of English late-medieval painting on glass. They were made in Norwich around 1500–25 and depict the Labours of the Months, a popular theme in European medieval art. A king sits at a table laden with food (December/January); peasants prune trees (March), shelter from a hailstorm (April, or possibly November) and harvest grapes (September).

The four roundels are exceptional survivals, having sustained hardly any damage in 600 years. They come from a set of 12 that was probably made for the Norwich home of the merchant and three-times mayor of the city Thomas Pykerell (d. 1545) – a house that still stands in Rosemary Lane today. Some of the painted scenes specifically echo local traditions. Until at least the 18th century, an annual pageant of the Labours of the Months was staged in Norwich, presided over by the King of Christmas – possibly the king in the December/January roundel. The motif of a peasant sheltering from a hailstorm seems to be unique to the Norwich cycle of the Labours.

When six of the roundels came onto the market in 2011, NHMF enabled Norwich Castle Museum and Art Gallery to acquire four; the two others went to the Victoria and Albert Museum. In view of the roundels' local provenance and associations, Norwich Castle is a highly appropriate home. The roundels will be on public display and play an important part in the museum's learning programme.





# Report of the Trustees and Accounting Officer

## Management commentary

### Background information

The National Heritage Memorial Fund (NHMF or 'the Fund') is vested in and administered by a body corporate known as the Trustees of NHMF, 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. It receives an annual grant-in-aid from the government to allow it to make grants. 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 also became responsible for the distribution of that proportion of National Lottery proceeds allocated to the heritage. Trustees of NHMF have to prepare separate accounts for the receipt and allocation of grant-in-aid and for their operation as a distributor of National Lottery money. Trustees have chosen to refer to the funds as NHMF for sums allocated under the provisions of the 1980 Act and the Heritage Lottery Fund (HLF) for receipts under the provisions of the 1993 Act.

### Principal activities

Under sections 3 and 3a of the 1980 Act, Trustees may make grants and loans out of NHMF for the purpose of acquiring, maintaining or preserving:

- i) any land, building or structure which in the opinion of the Trustees is of outstanding scenic, historic, aesthetic, architectural, archaeological or scientific interest;
- ii) any object which in their opinion is of outstanding historic, artistic or scientific interest;
- iii) 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 1980 Act (as amended) 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 1980 Act (as amended) 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 use these extended powers primarily in connection with HLF. Trustees believe that NHMF 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

International Financial Reporting Standard 7 'Financial Instruments: Disclosures' (IFRS 7) requires disclosure of the role that financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Financial instruments play a much more limited role in creating or changing risk for NHMF than is typical of the listed companies to which IFRS 7 mainly applies. NHMF does not have powers to borrow, but can invest grant-in-aid-derived funds. Financial assets and liabilities are generated by day-to-day operational activities rather than being held to change the risks facing the organisation.

### Liquidity risk

NHMF received very little income in 2011–12 as grant-in-aid continued at its token level of £1. However, NHMF had large cash balances brought forward from the previous financial year and used this money to fund grant payments and operating costs. In addition, Trustees maintain an endowment and its underlying investments in Schroder & Co. Limited's Charity Multi-Asset Fund are widely traded. Trustees are able to liquidate funds on a daily basis – indeed £3million was drawn down from the endowment fund during the year to fund grant payments. Therefore, Trustees are satisfied that they have sufficient liquid resources, in the form of their cash balances (worth £98,000 at the date of the Statement of Financial Position) and the endowment fund (worth £26.4million at the date of the Statement of Financial Position), to cover all outstanding grant awards of £1.4million and administrative liabilities of £43,000. The endowment is mostly invested in unit trusts which are readily marketable – the prices are quoted daily in the Financial Times. NHMF monitors its cash balances on a daily basis and keeps in regular contact with grantees to ascertain their likely cash drawdown requirements. The Trustees consider that the Fund is not exposed to significant liquidity risks.

### Market and interest rate risk

Cash balances, which are used to pay grant commitments and operating costs, are held in a variety of bank accounts, one fixed rate and one variable rate. The variable rate account carried an interest rate of 0.35% in the year and was used to make grant payments and fund our administration. Larger sums of money were held in short-term fixed rate accounts, paying between 1.62% and 1.8%, and were used to fund the variable rate account when required. The sharp decline in market interest rates that occurred during 2008–09 has had an impact on returns, but as there is little room for rates to fall further, the risk is small. The year-end cash balances, held by the Fund in the bank and via their endowment fund investment managers, were £98,000. Other financial assets and NHMF's financial liabilities carried nil rates of interest.

Schroder & Co. Limited ('Schroders') managed NHMF's endowment and invested it in a wide range of assets, from marketable shares to cash. At the year end, the market value of the endowment, excluding its cash element, was £26.4million. Returns are dependent upon global stock markets and performance of companies included within the portfolio. In the year, the return on the endowment was 0.6%. The Trustees kept the performance of investments under review through their Finance and Resources Committee and its investment panel, which includes three independent members with extensive experience in the City of London.

As the balance of cash and investments within the endowment fund significantly exceed the current value of existing liabilities, and because NHMF has been informed of the level of its grant-in-aid over the next three years, no detailed sensitivity analysis has been carried out. Should the value of its endowment fund significantly decline in the long term, Trustees would seek an increase in their grant-in-aid whilst reducing their future grant-award budgets. Should this request be turned down by the Secretary of State, Trustees will review their long-term grant-award strategy.

	2011–12 £'000	2010–11 £'000
Cash balances		
– sterling at floating interest rates	16	106
– sterling at a mixture of fixed and floating rates	0	0
– sterling at fixed rates	82	6,626
	<b>98</b>	<b>6,732</b>

### Credit risk

NHMF's receivables mostly comprise sums due from their investment managers and a grantee. It is not, therefore, exposed to significant credit risk.

### Foreign currency risks

The endowment fund is invested in Schroders' Charity Multi-Asset Fund, which is denominated in sterling. The Multi-Asset Fund invests in a large number of unit trusts, many of which include investment in assets denominated in other currencies. It is not possible to be precise about the proportion of the investments denominated in foreign currencies, but it is around 27%. The Multi-Asset Fund mitigates its exposure to foreign exchange risks by investing in a global spread of equities, bonds and commodities and, therefore, currencies. The Trustees' investment panel monitors the investment of our endowment fund, including the exposure to foreign currencies within the Multi-Asset Fund. All other assets of NHMF are denominated in sterling.

### Financial assets by category

	2011–12 £'000	2010–11 £'000
Assets per the Statement of Financial Position		
Non-current assets	26,398	29,310
Cash and cash equivalents	98	6,732
Trade and other receivables	25	34
	<b>26,521</b>	<b>36,076</b>

### Financial liabilities by category

	2011–12 £'000	2010–11 £'000
Liabilities per the Statement of Financial Position		
– other financial liabilities		
• grant commitments	1,364	6,667
• operating payables	1	1
• other payables	4	2
• accruals	38	41
	<b>1,407</b>	<b>6,711</b>

### Fair values

Set out below is a comparison, by category, of book values and fair values of NHMF's financial assets and liabilities as at 31 March 2012.

Financial assets at 31 March 2012

	Book value £'000	Fair value £'000
Cash <sup>1</sup>	98	98
Investments <sup>2</sup>	24,080	26,398
Receivables <sup>3</sup>	25	25
	<b>24,203</b>	<b>26,521</b>



## Report of the Trustees and Accounting Officer

### Financial assets at 31 March 2011

	Book value £'000	Fair value £'000
Cash	6,732	6,732
Investments	26,929	29,310
Receivables	34	34
	<b>33,695</b>	<b>36,076</b>

### Financial liabilities at 31 March 2012

	Book value £'000	Fair value £'000
Grant commitments <sup>4</sup>	<b>1,364</b>	<b>1,364</b>
Operating payables <sup>5</sup>	<b>1</b>	<b>1</b>
Other payables <sup>5</sup>	<b>4</b>	<b>4</b>
Accruals <sup>5</sup>	<b>38</b>	<b>38</b>
	<b>1,407</b>	<b>1,407</b>

### Financial liabilities at 31 March 2011

	Book value £'000	Fair value £'000
Grant commitments	6,667	6,667
Operating payables	1	1
Other payables	2	2
Accruals	41	41
	<b>6,711</b>	<b>6,711</b>

#### Basis of fair valuation:

1. The figure here is the value of short-term money market investments and deposits with commercial banks. It is expected that book value equals fair value.
2. Investments are made in readily marketable securities and are valued at mid-market at close of business on the date of the Statement of Financial Position. Where relevant, the closing exchange rate between the base currency and sterling is taken at the date of the Statement of Financial Position. Book value reflects the price actually paid in sterling at the date of completion of the transaction.
3. No provision for bad debt is deemed necessary. None of the debts are long term and so no discounting factor has been applied.
4. No discount factor has been applied.
5. All payables are due within normal contractual terms, usually 14–30 days, and so no difference exists between book value and fair value.

### Maturity of financial liabilities

	2011–12 £'000	2010–11 £'000
In less than one year	<b>1,407</b>	6,711
In more than one year, but less than two	<b>0</b>	0
In two to five years	<b>0</b>	0
In more than five years	<b>0</b>	0
	<b>1,407</b>	<b>6,711</b>

### Future developments

Grant-in-aid in 2012–13 will be £5million, with a further £15million over the following two years. Consequently, Trustees have set a budget of £5million for awards in 2012–13. The value of the endowment fund has fallen in recent years as the level of award has exceeded grant-in-aid receipts and stock market

returns have been poor. Trustees aim to return £5million to the endowment fund from the grant-in-aid of 2013–14.

Trustees consider that an annual grant-in-aid of £10million represents the bare minimum to allow NHMF to meet its statutory duties. Thus, an average level of grant-in-aid of £5million per annum will inevitably mean that some items of our heritage could be lost. Demand for funding remains strong and we will continue to make the case for a return to £10million per annum.

### 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 assessment and monitoring, as well as 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 Board meetings in the monthly core brief, 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, NHMF abides by equal opportunities legislation. The Fund 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 job-related criteria. NHMF does not tolerate any form of discrimination, harassment or victimisation. The Fund welcomes job applications from people with disabilities, and currently around 6% (2010–11: 4%) of our workforce is made up of people with declared disabilities. All staff are required to co-operate in making this policy work effectively. During the past year the Staff Disability Action Group has met twice and introduced the concept of inviting selected charities to attend and present to staff. In 2011–12 representatives from

Diabetes UK and Mind were invited and along with other diversity and equality training this has enabled staff to have the confidence to declare a disability.

### Payables

NHMF 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 2011–12, the average age of invoices paid was eight working days (2010–11: 8 days). Over 95% of invoices were paid within 30 calendar days (2010–11: 96%).

Another way of measuring our commitment to paying suppliers is the creditor days ratio – the ratio of trade payables at the end of the year to the total value of purchases in the year expressed in terms of days. At 31 March 2012, the figure was 19 days (2010–11: 29 days).

### Pension liabilities

The Fund makes contributions to the pension schemes of staff. Other than making these payments, the Fund has no pension liabilities. 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 NHMF and exclude themselves from the relevant grant appraisal, discussion and decision processes within NHMF. 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 NHMF. 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 Board, 7 Holbein Place, London SW1W 8NR.

### Appointment of auditors

The 1980 Act provides for the annual accounts of NHMF to be audited by the Comptroller and Auditor General. The 1993 Act extends this to the Lottery activities of Trustees.

### Key stakeholders

The key stakeholder of NHMF is the Department for Culture, Media and Sport (DCMS).

### Events after the reporting period

There were no events that occurred after 31 March 2012, up until the date the Accounting Officer signed these accounts, that need to be brought to the attention of the reader. The Accounting Officer

authorised the accounts for issue on 6 July 2012, which was the date the accounts were certified by the Comptroller and Auditor General.

### Key performance indicators

Trustees recognise that NHMF should strive for high performance in its activities. To this end, there are three performance indicators in their current funding agreement with DCMS. These indicators cover the most significant aspects of customer service – the speed of processing a grant application; the speed of processing a grant payment request; and the speed of publicising decisions on our website.

	Target	2011–12	2010–11	2009–10	2008–09
Application processing times (months)					
– urgent applications	3	1.3	1.1	1.1	0.8
– non-urgent applications	6	2.1	1.7	3.4	2.7
Publicising decisions (working days)					
– post decisions on website	14	10	10	10	10
Paying grants (working days)					
– after payment request	15	7	3	3	4

The above indicators and targets will continue into 2012–13.

### Personal data

NHMF has had no incidents where personal data was inadvertently disclosed to a third party and has made no report to the Information Commissioner's office. NHMF will continue to monitor and assess its information risks in order to identify and address any weaknesses and ensure continuous improvements of its systems.

### Sickness absence

In 2011–12, 1,579 days were lost due to 327 sickness episodes (2010–11: 2,199 days in 354 episodes), which represents a very modest 1.93% of all working days (2010–11: 2.56%).

### Sustainability performance

The Treasury requires all public sector bodies to produce sustainability reports from 2011–12. 2010–11 was a "dry run" and from 1 April 2010, NHMF recorded its carbon footprint in terms of business travel undertaken, waste generated and energy consumption. However, 2010–11 was the first year of collecting the information and is not a reliable baseline; for example, none of our landlords provided figures for kilowatt hours of gas or electricity

## Report of the Trustees and Accounting Officer

used, nor did they bill quickly enough to provide figures for the latest financial year, which meant that we had to use 2009–10 figures for those offices. For 2011–12 we have collected kilowatt hours for both gas and electricity and have more invoices for the period. 2011–12 therefore represents the first reliable baseline from which we will be able to monitor trends.

Trustees see little point in allocating sustainability reporting between their grant-in-aid activities and their Lottery distribution activities. Consequently, the information below covers all the activities of NHMF.

### Summary of performance

NHMF has control over only one of the properties that it occupies; the headquarters in London. In 2010–11 we replaced the 25-year-old gas boilers for the heating, the chillers for the air conditioning, and installed sensor-controlled lighting that is both movement and daylight sensitive. Having undertaken such a major refit there is no scope for further reducing greenhouse-gas emissions in the one office we control.

In the 10 other properties we occupy we are wholly reliant on the landlord to improve performance and that is unlikely to happen in between major refurbishments. The room for further improvement in scope 1 and 2 emissions is therefore extremely limited.

We describe elsewhere in this report the increase in workload, which has led to a modest increase in greenhouse-gas emissions from business travel.

Area	2011–12
Greenhouse-gas emissions	
– scopes 1, 2 & 3 business travel including international air/rail travel (tCO <sub>2</sub> e)	<b>747.1</b>
Estate energy	
– consumption (kWh)	<b>1.3million</b>
– expenditure	<b>£384,532</b>
Estate waste	
– consumption (tonnes)	<b>18.9</b>
– expenditure	<b>£6,640</b>
Estate water	
– consumption (m <sup>3</sup> )	<b>5,223</b>
– expenditure	<b>£18,786</b>

Normalised by full-time-equivalent staff (FTE) employed in the period.

Area per FTE	2011–12	2010–11
Greenhouse-gas emissions		
– scopes 1, 2 & 3 business travel including international air/rail travel (tCO <sub>2</sub> e)	<b>3.3</b>	2.5
Estate energy		
– consumption (kWh)	<b>5,701</b>	5,686
– expenditure	<b>£1,679</b>	£1,530
Estate waste		
– consumption (tonnes)	<b>0.1</b>	0.2
– expenditure	<b>£29</b>	£34
Estate water		
– consumption (m <sup>3</sup> )	<b>23</b>	63
– expenditure	<b>£82</b>	£81

### Greenhouse-gas emissions

Direct energy emissions relate to gas used in boilers operated by NHMF and emissions given off through our use of air conditioning in our London headquarters. Information about gas consumption in kilowatt hours is derived from our suppliers.

Kilowatt hours are converted to carbon dioxide equivalent tonnes using a conversion factor supplied by the Department for Environment, Food and Rural Affairs (DEFRA). The carbon dioxide equivalent for emissions from our air conditioning chillers was also calculated using the formula set out in DEFRA's guidance ([archive.defra.gov.uk/environment/business/reporting/pdf/110819-guidelines-ghg-conversion-factors.xls](http://archive.defra.gov.uk/environment/business/reporting/pdf/110819-guidelines-ghg-conversion-factors.xls)).

The replacement of the gas boilers in our London office has reduced consumption and the air conditioning has produced lower greenhouse-gas emissions as there was no disposal of refrigerant in 2011–12.

Indirect energy emissions relate to electricity generated by other organisations and sold to us, and heating that we buy from landlords of our country and regional offices. Information about consumption in kilowatt hours is obtained from our landlords. Kilowatt hours are converted to carbon dioxide equivalent tonnes using a conversion factor supplied by DEFRA. We are reliant on our landlords to improve performance.

Most of our travel is by rail, and our main ticket supplier provides us with details of the carbon dioxide equivalent emissions for all journeys undertaken. Similarly, our main car-hire supplier provides us with data on these emissions. Staff are required to update department spreadsheets with information about all other journeys. Department heads are tasked to ensure that their staff record all their travel.

The information gathered is converted to tonnes of carbon dioxide equivalent using tables of conversion factors supplied by DEFRA. With increasing workloads has come an inevitable increase in business travel, with an increase over 2010–11 of 12 tonnes.

### *Waste*

NHMF does not generate any hazardous waste. Further analysis of what happened to the waste we generated is not possible. All non-recycled waste is collected by councils local to the offices in which we operate. We do not know what they do with that waste, but have assumed that it all goes to landfill. Only Kensington & Chelsea Council invoice us separately. This is the expenditure disclosed in the table above.

Our country and regional offices are small enough to weigh all the waste they generated, which is on average just over 1 tonne each per annum. There is no reliable way to measure the much greater volume of waste removed by Kensington & Chelsea Council in London and our original estimate of around 9.4 tonnes based on sampling the weight of a selection of refuse bags was not consistent with the experience with the rest of the country, where a similar number of staff produce only 4.5 tonnes of waste. We have therefore calculated the amount of waste generated per person based on actual weights in our country and regional offices and applied that to staff in London. It would be helpful if councils routinely weighed the waste they removed from offices.

### *Use of resources*

Water consumption information is derived from the supplier's invoices for our head office in London. For the other offices we occupy, landlords provide information about the number of cubic metres consumed based on the space we occupy, rather than by individual metering.

Replacing the water cooling towers for the air conditioning of our London office has reduced water consumption.

## **Chair and Trustees of NHMF**

### *Chair*

Dame Jenny Abramsky <sup>2</sup>

### *Trustees*

Kim Evans <sup>2</sup>

Yinnon Ezra <sup>1</sup>

Kathy Gee

Doug Hulyer <sup>1</sup>

Dan Clayton Jones *to 11 January 2012*

Hilary Lade <sup>2</sup>

Alison McLean <sup>1</sup>

Richard Morris *from 16 May 2011*

Atul Patel <sup>2</sup> *from 16 May 2011*

Seona Reid *from 1 April 2011*

Ronnie Spence <sup>1</sup>

Virginia Tandy

Richard Wilkin <sup>2</sup> *to 11 January 2012*

Manon Williams *from 12 January 2012*

Christopher Woodward

### *Chief Executive*

Carole Souter <sup>2</sup>

<sup>1</sup> Member of Audit Committee

<sup>2</sup> Member of Finance and Resources Committee  
(which also covers remuneration)

**Dame Jenny Abramsky**  
Chair

**Carole Souter**  
Chief Executive

4 July 2012

### Financial review

In 2011–12, we received 10 applications, all of which were considered by the Trustees. All of these applications met our criteria so were supported with awards totalling £4,988,944.

One of the projects supported was outbid at auction. As in previous years this demonstrates a recurring issue with items for sale at auction, where prices regularly exceed the estimates set. In this case the final hammer price exceeded all expectations, and, unfortunately, the item was acquired by an organisation outside the UK.

A highlight of the year was the purchase by the Bodleian Library of a rare manuscript of an unfinished novel by Jane Austen. Titled *The Watsons*, the manuscript is the earliest known draft of a novel by Austen. Although a transcript of *The Watsons* is available online, there had only been one study of the actual manuscript in 1924. The manuscript is of high importance for academic research, and is also now available for the public to view on the *Treasures of the Bodleian* website. The library intends to use *The Watsons* in a new permanent exhibition gallery in 2015.

NHMF was asked to support two items which were temporarily stopped from export out of the UK following advice from the Reviewing Committee for the Export of Works of Art – a William Beckford coffer and stand and Lord Raby's wine cistern. The Beckford coffer and stand were acquired by the Beckford Tower Trust and join other items of Beckford furniture which are housed in the museum on the upper floors of the tower in Bath. Although the wine cistern was closely connected to Wentworth Castle, they were not in a position to purchase it. Leeds Museums and Galleries stepped in to acquire the item for Temple Newsam, with plans for joint activities with Wentworth Castle. The grants awarded to these export-stopped items demonstrate NHMF's continuing key role in underpinning other government mechanisms for securing cultural property at risk of loss to the nation.

Leeds Museums and Galleries also acquired an Anglo-Saxon gold hoard comprising seven pieces in total – four rings, half a gold ingot, a gold brooch fragment and a lead spindle whorl. This acquisition was our only award this year for a find declared as treasure by the Treasure Valuation Committee. There is a scarcity of portable heritage from the Anglo-Saxon period so any archaeological find has the potential to broaden our knowledge of the period. Leeds City Museum are displaying the hoard

in their Leeds Story Gallery as key objects from the city's Anglo-Saxon and Viking history.

Norwich Castle Museum and Art Gallery acquired four 16th-century stained-glass roundels depicting a popular medieval motif – the Labours of the Months. Norwich was one of the medieval centres for stained-glass production in England and the roundels are believed to have been made for a former mayor. Our award allows these charming objects to be brought back to the city and displayed in the Castle Keep. They are part of the keep's 'Star Objects' trail and feature on both Norwich Castle's and Norfolk Archaeological Trust's websites.

As in previous years, NHMF has supported the acquisition of significant family archives, in this case the purchase of the archive of the Viscounts Melville by the National Records of Scotland. Focusing on the careers of the 1st and 2nd Viscounts Melville, the archive charts the American Revolutionary War, the struggle against Napoleon, and British imperial history in India and elsewhere. Without our financial support the archive would have been broken up, sold on the open market, and so lost as an integral historic record.

As NHMF was set up in the memory of those who have given their lives for this country, we have supported two acquisitions this year that are a fitting tribute. The first was to the RAF Museum to help recover a Dornier Do 17 bomber from Goodwin Sands off the coast of Kent. The aircraft is the last survivor of its type and played a key part in the Battle of Britain. It was previously submerged in the sand but had become exposed, and was at risk from tidal action and illegal removal of items by divers. The RAF Museum will raise the aircraft when the optimum conditions for recovering it occur. They plan to display it in an unrestored state alongside an unrestored wreck of a Hawker Hurricane in the Battle of Britain Hall at their Hendon site, as a tribute to the loss of life on both sides of the conflict.

The Board were also delighted to support the acquisition of Yr Ysgwrn in Snowdonia. This was the home of the Welsh First World War poet Hedd Wynn, who was tragically killed at the Battle of Passchendaele. The acquisition illustrates how NHMF works in partnership, in this case with Cadw and CyMAL in Wales, to safeguard and maintain public access to heritage. The property is preserved as it was in the poet's lifetime, including the bardic chairs awarded for his poetry.

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

Acquisition	Applicant	Awarded
Lord Raby's silver wine cistern	Leeds Museums and Galleries	£1,832,000
Dornier Do 17 recovery	Royal Air Force Museum	£165,681
Beckford coffer and stand	Beckford Tower Trust	£148,000
Jane Austen's <i>The Watsons</i>	Bodleian Library	£894,700
Anglo-Saxon gold hoard	Leeds Museums and Galleries	£95,000
Part of Wards Estate	RSPB Scotland	£172,000
16th-century stained-glass roundels	Norwich Castle Museum and Art Gallery	£93,000
Keeping an open door – the home of Hedd Wyn	Snowdonia National Park Authority	£350,423
Charlotte Brontë's <i>Young Men's Magazine</i> *	Brontë Society	£613,140
Archive of Viscounts Melville	National Records of Scotland	£625,000
<b>Total awards</b>		<b>£4,988,944</b>

\* Outbid at auction; grant not claimed

In Scotland we helped the RSPB to purchase 173 hectares of floodplain on the south-eastern bank of Loch Lomond. The land lies within the Loch Lomond and Trossachs National Park and is part of a National Nature Reserve. Our award will help the Society protect, conserve and manage this wetland area. The land provides a diversity of habitats – including mature oak woodland, willow and birch scrub woodland, a variety of bog, fen and other wetland, dry grassland and open water – making it important for a rich and diverse assemblage of rare plants and wildlife.

NHMF maintains an endowment fund which fell in value by £2.9million in the year, from £29.3million to £26.4million. Whilst there were slight improvements in world equity prices during the year, Trustees withdrew a net £3million from the fund. The underlying performance of the endowment fund was a return of 0.6%. The long-term aim of the endowment fund is capital growth and not income. Therefore, income from the fund was restricted to the profit on sale of investments to fund the one drawdown in the year. Income in the previous year was artificially inflated by the sale of all our investments as we switched investment manager.

Cash balances fell significantly in the year. At the start of the year, NHMF had a lot of cash which was due to us being prepared to make a significant grant payment in early April 2011. We received £1 grant-in-aid in the year and Trustees were faced with the decision of whether to make no grant awards or to use the endowment fund. Trustees chose the latter option because the UK's heritage continued to

require significant support. The fall in cash balances and the continued low level of interest rates in the economy meant that interest income fell sharply.

Grant awards in the year were almost £5million compared with £12.7million in the previous year. The minimal grant-in-aid and disappointing returns from the endowment fund meant that the funds available to Trustees were inevitably lower. Trustees received £5million grant-in-aid in April 2012 and hope to award all that sum in 2012–13 on top of £1.36million of outstanding commitments from 2011–12. The Fund is monitoring its cash flow carefully in order to avoid having to draw down funds from the endowment fund as this has an inevitable cost in terms of reduced returns.

Trustees have a long-term target for the value of the endowment fund, which is that it be worth £10million at 1980 prices. Drawdowns in recent years, coupled with poor stock market returns, have meant that the endowment fund is £11.3million below its target. Trustees intend to replenish the fund out of a later year's grant-in-aid should investment returns not clear the shortfall.

Operating costs fell again from £120,000 to £102,000. The main cause of this fall is the change in investment manager during 2011–12. As some of the costs of administering the Fund relate to the type of grant application we receive, it is impossible to state that the low level of operating costs will be matched in future years. However, Trustees are pleased to note that in 2011–12 the level was 34% below that of 2009–10.

In March 2011, the Committee on Climate Change (CCC) signed an undertaking to move into most of the first floor of Holbein Place, London, and on 24 May 2011 they signed an underlease. Rent was charged to CCC from May 2011. This has had a small, beneficial, effect on NHMF's operating costs.

A donation was received in the year from the estate of Angela Minchin. The Trustees wish to express their gratitude.

The accounts have been prepared on a going concern basis as required by the Secretary of State's accounts direction. This is because assets significantly exceeded liabilities at the date of the Statement of Financial Position and because Trustees have set a grant award budget for 2012–13 that is not expected to alter that position.

### 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 NHMF. In addition, NHMF reimbursed 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 reimbursement of taxable expenses and the tax thereon, falls into the bands in the table below.

All Trustees have three-year appointments, potentially renewable for a second term (Ronnie Spence has an 18-month extension to his three-year contract). They are appointed by the Prime Minister. They are not members of the pension scheme utilised by NHMF. No contributions were made by the Fund to a pension scheme on the Trustees' behalf. All Trustees' remuneration was allocated between NHMF and its Lottery distribution activities on the basis of 1%: 99%. The total remuneration of Trustees in 2011–12 was £205,235 (2010–11: £182,721). The pay and contracts of Trustees are discussed and set by DCMS. Their contracts do not contain any bonus clauses. There were no benefits in kind or non-cash elements paid to Trustees or directors.

#### Audited information

	2011–12 £'000	2010–11 £'000
Dame Jenny Abramsky <i>Chair</i>	40–45	40–45
Kim Evans	5–10	5–10
Yinnon Ezra	10–15	0–5
Kathy Gee	10–15	5–10
Doug Hulyer	5–10	10–15
Tristram Hunt <i>to 6 April 2010</i>	0	0
Dan Clayton Jones <i>to 11 January 2012</i>	15–20	20–25
Hilary Lade	10–15	10–15
Brian Lang <i>to 20 March 2011</i>	0	20–25
Alison McLean	5–10	5–10
Richard Morris <i>from 16 May 2011</i>	5–10	0
Atul Patel <i>from 16 May 2011</i>	5–10	0
Seona Reid <i>from 1 April 2011</i>	20–25	0
Matthew Saunders <i>to 15 March 2011</i>	0	5–10
Ronnie Spence	20–25	20–25
Virginia Tandy	10–15	0–5
Richard Wilkin <i>to 11 January 2012</i>	5–10	5–10
Manon Williams <i>from 12 January 2012</i>	0–5	0
Christopher Woodward	5–10	5–10

## Remuneration of employees (Audited information)

The remuneration of directors was as follows:

	Salary 2011-12 £'000	Salary 2010-11 £'000	Bonus 2011-12 £'000	Bonus 2010-11 £'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 31/3/12 £'000	CETV at 31/3/11 £'000**	Real increase in CETV funded by NHMF £'000
<b>Carole Souter</b> Chief Executive	<b>130 to 135</b>	130 to 135	<b>0 to 5<sup>#</sup></b>	0 to 5 <sup>#</sup>	0 to -2.5 and -2.5 to -5 lump sum	50 to 55 plus 160 to 165 lump sum	1,050	987	-23
<b>Robert Bewley</b> Director of Operations	<b>90 to 95</b>	90 to 95	<b>0 to 5</b>	5 to 10	0 to -2.5 and 0 to -2.5 lump sum	30 to 35 plus 90 to 95 lump sum	627	587	-10
<b>Judith Cligman</b> Director of Strategy and Business Development	<b>90 to 95</b>	90 to 95	<b>0 to 5</b>	0 to 5	0 to -2.5 and 0 to -2.5 lump sum	30 to 35 plus 90 to 95 lump sum	570	534	-9
<b>Steve Willis</b> Director of Finance and Corporate Services	<b>100 to 105</b>	100 to 105	<b>0 to 5</b>	5 to 10	0 to -2.5 and -2.5 to -5 lump sum	50 to 55 plus 155 to 160 lump sum	1,187	1,124	-33

\*\*These figures are different to those quoted in last year's accounts. The actuarial factors used to calculate cash equivalent transfer values were changed in 2011-12. The CETVs at 31/3/11 and 31/3/12 have both been calculated using the new factors, for consistency.

# Carole Souter waived her right to a director's bonus in both 2011-12 and 2010-11.

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. The pension age is 60 for members of classic, premium and classic plus and 65 for members of Nuvos.

Bonuses payable to senior management are disclosed separately in line with Employer Pensions Notice 287 issued by the Cabinet Office in November 2010.

### 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 figures include the value of any pension benefit in another scheme or arrangement which the

member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out within the guidelines and framework prescribed by the Institute and Faculty of Actuaries and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

### Real increase in CETV

This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation or contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement). It 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 HLF and NHMF on the basis of 99%: 1% (2010-11: 99%: 1%). 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



## Report of the Trustees and Accounting Officer

for the Chief Executive are set by the Chair of the Trustees, and the Chief Executive in turn agrees personal objectives with the 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 four different levels of achievement. There is a bonus scheme for the directors which takes into account the Finance and Resources Committee's (membership of the committee is disclosed on page 25) 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 six 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.

### Remuneration ratio

One of the outcomes of the recent Hutton Review of Fair Pay is that we are required to disclose the relationship between the remuneration of the highest-paid director and the median remuneration of our workforce.

The banded remuneration of the highest-paid director in 2011–12 was £130,000 to £135,000. This was five times the median remuneration of the workforce, which was £26,372. There were no employees who received remuneration in excess of the highest-paid director. As this is the first year that we have been required to produce this information, there is no comparative data. However, we have no reason to believe that the ratio will have widened during the year as all staff earning over £21,000 had their pay frozen for the second year and staff turnover is low.

Total remuneration includes salary, non-consolidated performance-related pay, benefits-in-kind as well as severance payments. It does not include employer pension contributions and the cash equivalent transfer value of pensions. In order to calculate the median salary we have had to gross up the salary of part-time staff and annualise the salary of staff on fixed-term contracts. We have not included

overtime payments and we have excluded from the calculation our Trustees and committee members.

### Exit packages

Under the terms of Employer Pensions Notice 296 issued by the Cabinet Office in March 2011, NHMF is required to publish details of all exit packages agreed in the financial year under review. Falling under the definition of exit packages are compulsory and voluntary redundancies, early retirement, compensation for loss of office, ex-gratia payments etc. There was one in 2011–12 (2010–11: 0).

### Audited information

	2011–12 Number	2010–11 Number
£30,000–£35,000	1	0

**Carole Souter**  
Chief Executive

4 July 2012

## Statement of Trustees' and Chief Executive's responsibilities

Under section 7(2) of the 1980 Act, Trustees of NHMF 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, Olympics, 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, and of its income and expenditure, recognised gains and losses and cash flows for the financial year.

In preparing the accounts, Trustees of NHMF are required to comply with the requirements of the Government Financial Reporting Manual (FREM) and in particular to:

- i) observe the accounts direction issued by the Secretary of State, 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 FREM, have been followed, and disclose and explain any material departures in the financial statements; and
- 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 DCMS has appointed the senior full-time official, the Chief Executive, 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 which the Accounting Officer is answerable, 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 *Managing Public Money*.

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 Jenny Abramsky**  
Chair

**Carole Souter**  
Chief Executive

4 July 2012

### Governance statement

As the Accounting Officer of the National Heritage Memorial Fund, I am required by the accounts direction issued by the Secretary of State to account separately for my two main sources of income – grant-in-aid and Lottery. Other than that, NHMF operates as a single entity because I believe that this is a more efficient way to distribute grants. Consequently, there is one governance structure and this statement covers the distribution of both grant-in-aid and Lottery grants.

### The governance framework

I have responsibility for maintaining a sound system of internal control that supports the achievement of NHMF's policies, aims and objectives, whilst safeguarding the public funds and assets for which I am personally responsible. This is in accordance with the responsibilities assigned to me in *Managing Public Money*.

The National Heritage Memorial Fund (NHMF or 'the Fund') is vested in and administered by a body corporate known as the Trustees of NHMF, 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 powers of the Trustees and their responsibilities were extended by the provisions of the National Lottery etc. Act 1993, the National Heritage Act 1997 and the National Lottery Act 1998.

I work closely with the Board of Trustees of 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; and
- iv) report on the stewardship of public funds.

The Board of Trustees operates as a group and held 11 meetings during the year to set policy for NHMF and make decisions in line with that policy. These meetings are held in my presence and that of my colleagues in senior management. All Board meetings held in 2011–12 were quorate. The overall average attendance rate of Trustees was 95%, with no Trustee attending less than 82% of Board meetings. Trustees have also delegated some of their tasks to two sub-committees – Finance and Resources, and Audit. These committees oversee the activities of management and provide support. The minutes of committee meetings are standing items on the

agenda of Board meetings and the committee chairs provide a full report on their activities.

The Finance and Resources Committee comprises four Trustees and me, and is chaired by a Trustee. Two of my directors also attend each meeting. This committee met three times during the year and was quorate on each occasion. Its terms of reference cover the preparation of the strategic framework and business plans of NHMF, setting and monitoring budgets for grant awards and operating costs, guiding management on administrative and control structures, overseeing the investment of NHMF's endowment fund and approving the remuneration policy. The significant matters discussed by the committee during the year included satisfying itself that management were adequately monitoring staff workloads at a time of increasing applications; management's proposals on the accommodation strategy as several office leases were coming to an end; and the investment principles to be adopted for the endowment fund.

The Audit Committee comprises four Trustees and is chaired by a Trustee. It met three times during the year and was quorate on each occasion. I attend each meeting along with the Director of Finance and Corporate Services. Its terms of reference include the activities of the internal and external auditors and overseeing the risk culture of NHMF. During the year the committee reviewed its operation in line with the Audit Committee Checklist, produced by the National Audit Office. Each committee member completed the questionnaire in isolation, as did senior management, and it was notable that everyone's understanding was closely aligned. The committee were satisfied that they were operating in line with recommendations of the checklist. One result of this exercise was that the committee considered whether there should be a change to its terms of reference to incorporate the consideration of risks to individual grant-aided projects. No final decision has been made as any change would have to fit into the operating structure for the upcoming strategic framework, which is due out in 2013. The subject will be revisited during 2012–13. The committee also discussed whether co-opting external members with specialist skills would be beneficial. However, they decided against this as there were already representatives from three large accounting and auditing bodies at each meeting. The committee makes regular reports to the Board, and Trustees are satisfied that the committee is providing them with the assurance they require.

The Trustees have also delegated their grant-decision-making responsibilities for certain types and values of

Lottery awards to country and regional committees. There are 12 of these committees and each contains one Trustee. In addition to making grant decisions, these committees provide advice to the Board on priorities within their area and act as advocates of Trustees' Lottery activities. Trustees have also delegated grant-decision-making for grants under £50,000 (£100,000 from 1 April 2012 onwards) to staff, specifically heads of regions and countries. The regional and country committees produce an annual report for Trustees on the impact of small grants in the country/region and performance, including risk management. All decisions made by staff and committees are reported to the Board.

I operate a four-department structure within NHMF. The department heads and their deputies form my Management Board. I chair each meeting of the Management Board, which meets weekly. The Management Board controls the day-to-day activity of the Fund. I benefit greatly from the expertise of my colleagues who have many years of experience in their respective fields. I also hold regular meetings with the Managers' Forum comprising all middle and senior managers. The agenda of these meetings regularly includes planning and risk, and allows staff from various departments to share their views on good practice.

Our combined strength allows us to maintain a robust internal control system that is sufficiently flexible to cope with the changing demands of our stakeholders and allows us to keep up-to-date with innovations in administration. Our 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 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 annual operating plan of NHMF – the business plan – is discussed with our sponsor department, DCMS. DCMS has also set policy and financial directions with which we have complied in our Lottery activities (the Welsh Assembly and the Scottish Parliament have also issued some policy directions with regard to our Lottery activities in those countries). 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.

### **Risk assessment**

All policy-setting and grant-decision-making is informed by the risk-management culture of NHMF. The Management Board devised a risk-management statement that sets out our principles of risk management. It also details how NHMF identifies, monitors and controls risks and opportunities, and sets out the Fund's appetite for risk. It also assigns specific responsibilities to individuals and groups in ensuring that NHMF's risk management achieves its risk objectives. The statement is approved by the Audit Committee and is reviewed annually.

The Fund's appetite for risk, as set out in the risk-management strategy, states: "Well-thought-through risk-taking and innovation to achieve NHMF objectives should be encouraged. This means that a 100% risk-avoidance culture is not the most effective use of our resources." I believe that the Fund demonstrates innovation in its choice of grant awards and it does not resort to simply making risk-free decisions. To this end, we are prepared to accept that some of the organisations to whom we give grants will not subsequently demonstrate competence in the administration of the grant. We learn our lessons, improve our processes and, in rare circumstances, write off the grant. In the worst cases, we may have to call in the police. I approve all write-offs and this allows me to monitor the amount each year to ensure that there is no suggestion that our assessment and monitoring processes are lax. As can be seen from the relevant note to the accounts, the level of grant write-off is extremely small relative to the amount of money we distribute each year. On the other hand, the high level of customer satisfaction demonstrated in independent surveys suggests that our working practices are not too onerous for applicants. Consequently, I am able to conclude that there is no cause for concern about the level of risk implicit in our processes.

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. The risk register forms part of the annual business plan of the Board of Trustees, having been previously endorsed by the Audit Committee. The Management Board assigns to senior managers (the 'risk owners') the task of putting procedures in place to monitor and, where possible, mitigate the risk.

The Management Board reviews the effectiveness of their work on a quarterly basis. The Audit Committee also reviews effectiveness at each meeting and questions the activities of risk owners. Furthermore, our internal audit function reviews the risk-management processes as part of its work and can provide the benefit of its experience of other organisations' risk-management activities.

Policy papers put to the Board of Trustees for decision all contain a discussion of the risks associated with taking the possible courses of action. The Board also regularly discusses one of the risks on the risk register with the risk owner.

Whilst the Management Board and the Audit Committee take the lead on setting the risk framework, staff at middle-management level are fully involved in the system. The risk register is circulated to all middle management prior to their production of annual team plans. Each team annual plan makes specific reference to the risk register and expresses how their activities will operate in the light of the identified risks. They are also expected to bring to the attention of senior management any emerging risks. Their plans are discussed and approved by senior management. In addition, the Managers' Forum has regular discussion of the risk environment in which NHMF operates and how the Fund should respond. All middle managers are appraised on an annual basis of the way in which they anticipate, identify and manage both risks and opportunities.

In 2011–12, NHMF considered the following to be the most significant areas of risk:

- i) growing demand in a worsening economic climate puts pressure on the NHMF endowment fund and/or loss of heritage resulting in negative publicity and reduction of stakeholder confidence;
- ii) failure of awarded grants to meet our strategic objectives;
- iii) demand for awards, pre-application advice and monitoring exceeds our operational capacity;
- iv) 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;
- v) failure to set and follow efficient procedures, thereby giving rise to the risk of inefficiency, fraud or of making decisions open to challenge;
- vi) failure to recruit, retain and motivate appropriately skilled staff;
- vii) lack of adequate acknowledgement of the NHMF/HLF contribution by grantees;

viii) that support and influence lessen as a result of low awareness and understanding of the benefits of our investment, with its unique cross-sectoral and facilitating role, by stakeholders and the Lottery-playing public; and

- ix) risk of increased media and opinion-former scrutiny of our funding decisions in current economic and political conditions with potential for adverse response.

NHMF has a fraud policy that is reviewed on an annual basis. It is given to all new staff at their induction, and they all receive a one-day training session on fraud awareness. NHMF also has an information risk policy to be followed by all staff – new staff read it as part of their induction. The policy, which is reviewed on an annual basis, requires all data to be held securely. NHMF is compliant with the Security Policy Framework and with the mandatory measures of the Data Handling Review.

### Significant issues dealt with by the Board during the year

The most significant activity for the Board has been the preparation for its new strategic framework. A significant amount of work has been undertaken in consulting with stakeholders and analysing their comments, and then consolidating it all into a strategic framework that will be launched during 2012–13.

Other matters handled by the Board included the launch of policy directions for Scotland created by the Scottish Government, and a government initiative to encourage philanthropy (entitled Catalyst). The Board has agreed to set aside £20million over the next four years for Catalyst.

The anticipated significant rise in Lottery income over the coming years, as a result of the government's decision to increase our share of good-causes money to 20%, the high level of Lottery ticket sales and the ending of the transfers to help fund the 2012 Olympics have allowed a large rise in the grant budget for 2012–13. Trustees sought and received assurances from management that the administrative structure of NHMF is capable of handling such a steep increase in awards.

Nothing of concern emerged from any of the committees set up by the Board. Reports from the internal and external auditors were satisfactory (more details below). The only topic of concern that the Board had to deal with was the impact on the endowment fund of the minimal grant-in-aid this year; the decline in world stock markets and the high level of demand for grant-in-aid awards. This has resulted in the endowment fund falling well

short of its target value. At the start of the financial year, the shortfall was £5.2million; at the end of the financial year it was £11.3million. At present, every time a grant-in-aid application is put before them, the Board has not only to consider its merits in terms of Britain's national heritage, but also what the impact will be on our endowment fund.

### **The performance of the Board**

The Board undertook its annual assessment of its own effectiveness in February 2012. In February 2010 the Board enhanced its governance through the completion of a self-evaluation questionnaire, facilitated by the National School of Government. In the two years since that review, the Board has adopted the principles outlined in that questionnaire (focusing on the organisation's purpose and on outcomes, performing effectively in clearly defined roles, promoting values for the whole organisation and demonstrating the values of good governance, taking informed and transparent decisions and managing risk, developing the capacity and capability of the Board) when making decisions and in carrying out their annual assessment of effectiveness. The structure put in place as a result of this work has continued to provide NHMF with effective governance. The Board was happy with its governance performance in the year and considered that it had met the Treasury's Corporate Governance Code. There was nothing in any of the internal or external audit reports put before the Board's Audit Committee that gave it any cause for concern. Consequently, the Board believes it can rely on the quality of data put before it by management and upon which it bases its decisions.

As part of its annual assessment, the Board agreed to do the following:

- 1 External involvement in the assessment exercise would take place every three years.
- 2 New Trustees would "shadow" a more experienced colleague at the time of their induction. This would help them to get up to speed more quickly.

All new Trustees receive induction at the time of their appointment, which introduces them to their obligations as a Trustee, the work of NHMF and its systems, thereby helping to prepare them to make a full contribution to the working of the Board. The effectiveness of Trustees is appraised by the Chair on an annual basis and exit interviews are held when their contracts end to allow them to make any observations on how to improve the operation of the Board.

### **The governance year**

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review is informed by the work of the internal auditors and senior management within 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. As a result of their work during the year, the internal auditors have produced an annual certificate of assurance with regard to the adequacy of the systems and the operation of internal controls within NHMF. In addition, I have seen the management letter prepared by the external auditors following their audit of the accounts for the year ended 31 March 2012. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board of Trustees and the Audit Committee, and a plan to address weaknesses and ensure continuous improvement of the internal control system is in place.

The annual internal audit plan is created on a risk basis; the internal auditors were provided with a copy of the draft risk register for 2011 when preparing their plan. The Audit Committee reviewed and approved the internal audit plan. I ensured that there was sufficient flexibility in the plan to allow for changes to be made during the year to reflect any significant changes in the risk environment or the emergence of new risks. However, there was none.

All reports of the internal auditors were discussed by the Audit Committee with senior members of staff in attendance, including those whose departments were reported upon by the auditors – this gave me and members of the committee the opportunity to discuss, in detail, the findings, recommendations and proposed management actions. Heads of departments that had failings identified by the internal auditors were required to devise corrective action and set a completion date for that action in consultation with the internal auditors. I receive regular reports from the auditors notifying me of the progress my department heads have achieved in clearing up points raised by both internal and external auditors in previous years.

The most significant audit report resulted from a visit to five of our regional and country offices – Belfast, Cambridge, Edinburgh, Exeter and Newcastle – where I was gratified to note that there was no diminishing in effectiveness despite these offices being geographically distant from the centre. Other internal audit reports looked at our system for ensuring Lottery grantees acknowledge our awards –

## Report of the Trustees and Accounting Officer

unfortunately not all grantees do this despite it being a contractual requirement; our working practices as a landlord now that we rent out part of our head office building in London; and general controls in our finance team. I was satisfied with the results of those internal audit reports. No changes of any significance have been made to our systems in 2011–12 and no problems have emerged that lead me to believe that the internal control system is not operating effectively. The internal auditors described NHMF as having “a sound and effective internal control framework in place” in their annual report to the Audit Committee. There was nothing in the management letter produced by the external auditors that leads me to doubt the adequacy of our systems.

I also required all members of senior and middle management to sign annual memoranda of representation to me, detailing their responsibilities and confirming that they have carried out these responsibilities in 2011–12. All managers have signed the memorandum and they are aware that I have placed reliance on these assertions of my management.

The Audit Committee prepares a report of its activity to the Board of Trustees once a year. Neither internal nor external auditors had uncovered anything untoward during the year. The committee concluded, at its meeting in June 2012, that it had operated satisfactorily during 2011–12. The Board was pleased to hear this and endorsed this view at its June meeting. The Finance and Resources Committee prepares two reports a year to the Board in addition to its meeting minutes. They were able to report that we had a successful year where the grant budget was met; we kept within our operating budget and met DCMS’s targets for Lottery-grant processing and total operating costs as a proportion of income; we had another successful year in attaining our service level targets and our customer satisfaction levels are at a high point. All this was achieved at a time when grant applications are at higher levels than previous years and our cost base is at its lowest since we opened our country and regional offices a decade ago.

As a result of the above, I believe that the Fund’s framework provides me with the level of assurance that I require. 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. I believe that the governance structure has operated successfully in 2011–12.

### Attendance records

We are required by the Corporate Governance Code to disclose attendance records at Board meetings and Board sub-committee meetings.

#### Board attendance record

	Number of eligible meetings	Actual attendance
Dame Jenny Abramsky <i>Chair</i>	11	11
Kim Evans	11	10
Yinnon Ezra	11	11
Kathy Gee	11	11
Doug Hulyer	11	9
Dan Clayton Jones <i>to 11 January 2012</i>	8	8
Hilary Lade	11	10
Alison McLean	11	11
Richard Morris <i>from 16 May 2011</i>	10	9
Atul Patel <i>from 16 May 2011</i>	10	10
Seona Reid <i>from 1 April 2011</i>	11	11
Ronnie Spence	11	11
Virginia Tandy	11	10
Richard Wilkin <i>to 11 January 2012</i>	8	8
Manon Williams <i>from 12 January 2012</i>	3	3
Christopher Woodward	11	9

#### Audit Committee attendance record

	Number of eligible meetings	Actual attendance
Yinnon Ezra	3	3
Doug Hulyer	3	3
Alison McLean	3	2
Ronnie Spence	3	3

#### Finance and Resources Committee attendance record

	Number of eligible meetings	Actual attendance
Jenny Abramsky	3	3
Kim Evans	3	2
Hilary Lade	3	2
Atul Patel	1	1
Carole Souter	3	3
Richard Wilkin	2	2

**Carole Souter**  
Chief Executive

4 July 2012

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

I certify that I have audited the financial statements of the National Heritage Memorial Fund for the year ended 31 March 2012 under the National Heritage Act 1980. The financial statements comprise the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Taxpayers' Equity 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, Chief Executive/Accounting Officer and auditor

As explained more fully in the Statement of Trustees' and Chief Executive's Responsibilities, the Trustees and Chief Executive are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the National Heritage Act 1980. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the National Heritage Memorial Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the National Heritage Memorial Fund; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

## Opinion on Regularity

In my opinion, in all material respects the expenditure and income recorded in the financial statements have been applied to the purposes intended by

Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

## Opinion on financial statements

In my opinion:

- i) the financial statements give a true and fair view of the state of the National Heritage Memorial Fund's affairs as at 31 March 2012 and of its comprehensive net expenditure transferred to the accumulated fund for the year then ended; and
- ii) the financial statements have been properly prepared in accordance with the National Heritage Act 1980 and Secretary of State directions issued thereunder.

## Opinion on other matters

In my opinion:

- i) the part of the Remuneration Report to be audited has been properly prepared in accordance with Secretary of State directions issued under the National Heritage Act 1980; and
- ii) the information given in the Management Commentary and Financial Review for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- i) adequate accounting records have not been kept; or
- ii) the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or
- iii) I have not received all of the information and explanations I require for my audit; or
- iv) the Governance Statement does not reflect compliance with HM Treasury's guidance.

## Report

I have no observations to make on these financial statements.

**Amyas CE Morse**

Comptroller and Auditor General

6 July 2012

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



## Statement of Comprehensive Net Expenditure for the year ended 31 March 2012

	Notes	£'000	2011-12 £'000	2010-11 £'000
<b>Sundry operating income</b>	3		<b>69</b>	60
New awards made in the year	15	<b>(4,989)</b>		(12,716)
De-committed awards	15	<b>643</b>		2,584
			<b>(4,346)</b>	(10,132)
Staff costs	4	<b>(46)</b>		(45)
Depreciation	11	<b>(2)</b>		(1)
Other operating charges	6	<b>(54)</b>		(74)
			<b>(102)</b>	(120)
<b>Operating expenditure</b>			<b>(4,448)</b>	(10,252)
<b>Operating deficit</b>			<b>(4,379)</b>	(10,192)
Income from investments	7	<b>0</b>		205
Profit on the sale of investments	8	<b>164</b>		5,154
Interest receivable	9	<b>25</b>		103
<b>Non-operating income</b>			<b>189</b>	5,462
<b>Comprehensive net expenditure transferred to the accumulated fund</b>			<b>(4,190)</b>	(4,730)
<b>Other comprehensive income</b>				
Net loss on revaluation of available for sale financial assets	19		<b>(63)</b>	(3,864)
<b>Total comprehensive expenditure for the year ended 31 March 2012</b>			<b>(4,253)</b>	(8,594)

The expenditure statement excludes the Lottery activities of NHMF, which are separately reported in the accounts of HLF. All figures shown relate to continuing activities. The notes on pages 41 to 48 form part of the accounts.

## Statement of Changes in Taxpayers' Equity for the year ended 31 March 2012

	Fair value reserve £'000	Income and expenditure account £'000
Balance at 31 March 2010	6,245	31,724
<b>Changes in equity in 2010-11</b>		
Net loss on revaluation of investments	(3,864)	
Retained deficit		(4,730)
Grant-in-aid from DCMS		0
Balance at 31 March 2011	2,381	26,994
<b>Changes in equity in 2011-12</b>		
Net loss on revaluation of investments	(63)	
Retained deficit		(4,190)
Grant-in-aid from DCMS		0
<b>Balance at 31 March 2012</b>	<b>2,318</b>	<b>22,804</b>

The fair value reserve relates to the difference between book cost and market value of the investments in the endowment fund (see note 12 to the accounts). The difference between book and market value of property, plant and equipment (see note 11) is not material.

# Statement of Financial Position

## as at 31 March 2012

	Notes	31 March 2012 £'000	31 March 2011 £'000
<b>Non-current assets</b>			
Property, plant and equipment	11	8	10
Long-term financial assets available for sale	12	26,398	29,310
		<b>26,406</b>	29,320
<b>Current assets</b>			
Trade and other receivables	13	25	34
Cash and cash equivalents	10	98	6,703
Cash held in the endowment fund	10	0	29
		<b>123</b>	6,766
<b>Total assets</b>		<b>26,529</b>	36,086
<b>Current liabilities</b>			
Administrative liabilities	14	(43)	(44)
Grant commitments due within one year	15	(1,364)	(6,667)
<b>Assets less liabilities</b>		<b>25,122</b>	29,375
<b>Taxpayers' equity</b>			
Fair value reserve	19	2,318	2,381
Income and expenditure account		22,804	26,994
		<b>25,122</b>	29,375

This statement excludes balances relating to the Lottery activities of NHMF, which are separately disclosed in the accounts of HLF. The notes on pages 41 to 48 form part of the accounts.

**Dame Jenny Abramsky**  
Chair

**Carole Souter**  
Chief Executive

4 July 2012

## Statement of Cash Flows

for the year ended 31 March 2012

	Notes	2011-12 £'000	2010-11 £'000
<b>Operating activities</b>			
Cash from sundry operating income	3	69	60
Cash paid to and on behalf of employees		(46)	(45)
Interest received		43	86
Cash paid to suppliers		(64)	(94)
Cash paid to grant recipients	15	(9,649)	(11,983)
<b>Net cash outflow from operating activities</b>	17a	<b>(9,647)</b>	(11,976)
<b>Investing activities</b>			
Capital expenditure and financial investment	17b	3,013	3,092
Endowment fund net cash receipts		0	261
<b>Net cash inflow from returns on investments</b>		<b>3,013</b>	3,353
<b>Cash flows before financing</b>		<b>(6,634)</b>	(8,623)
<b>Financing activities</b>			
Grant-in-aid	17c	0	0
<b>Decrease in cash and cash equivalents</b>		<b>(6,634)</b>	(8,623)

## Reconciliation of Net Cash Flows to Movement in Net Funds

for the year ended 31 March 2012

	2011-12 £'000	2010-11 £'000
Decrease in operating cash in the period	(6,634)	(8,623)
Cash used to increase liquid resources	0	0
<b>Changes in cash and cash equivalents</b>	<b>(6,634)</b>	(8,623)
Cash and cash equivalents at 1 April 2011	6,732	15,355
<b>Cash and cash equivalents at 31 March 2012</b>	<b>98</b>	6,732

The notes on pages 41 to 48 form part of the accounts.

# Notes to the Accounts

## for the year ended 31 March 2012

### I. Statement of accounting policies

There are no standards and interpretations in issue, but not yet adopted, that the Trustees anticipate will have a material effect on the reported income and net assets of NHMF or its Lottery distribution activities.

#### 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 contained in the Companies Act 2006 and the FREM, so far as those requirements are appropriate, and accounts direction issued by the Secretary of State for Culture, Olympics, Media and Sport in October 2002. The accounting policies contained in the FREM apply IFRS as adapted or interpreted for the public sector context. The National Lottery accounts direction issued by the Secretary of State specifically excludes the preparation of consolidated accounts. Copies of the Lottery distribution and grant-in-aid accounts directions may be obtained from the Secretary to the Board, 7 Holbein Place, London SW1W 8NR.

Where the FREM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of NHMF for the purpose of giving a true and fair view has been selected. The particular policies adopted by NHMF are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

#### b) Government grants

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. No allocation is made between grants for revenue and capital purposes.

#### c) Non-current assets

Non-current assets are defined as those items purchased for the long-term use of NHMF and its Lottery distribution activities and where the total cost is above £2,000. Depreciation is provided on a straight-line basis on all non-current assets, including those held under finance leases, 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
Grant-assessment and other software	– up to 5 years

No internally generated costs are capitalised.

#### d) Investments

Non-current financial assets – our investments – are included in the accounts at market value. Realised gains and losses are included in the Statement of Comprehensive Net Expenditure and are calculated as the difference between sales proceeds and historic cost. Unrealised gains and losses on fixed asset investments are reflected in the fair value reserve and statement of changes in taxpayers' equity.

#### e) Taxation

No provision is made for general taxation as NHMF is statutorily exempt. NHMF is unable to recover Value Added Tax (VAT) charged to it, and the VAT-inclusive cost is included under the relevant expenditure descriptions.

#### f) Pension

The regular cost of providing benefits is charged to the Statement of Comprehensive Net Expenditure over the service lives of the members of the scheme on the basis of a constant percentage of pensionable pay. Staff are members of the PCSPS and the percentage of pensionable pay is notified by the Cabinet Office prior to the start of each financial year.

#### g) Leases

The annual rentals on operating leases are charged to the Statement of Comprehensive Net Expenditure on a straight-line basis over the term of the lease. Where leases take the substance of finance leases, and are material, they will be treated as finance leases. Items under finance leases are capitalised at their estimated cost excluding any interest charged by the lessor. Interest payments due under the terms of the lease agreement are charged to the Statement of Comprehensive Net Expenditure at the date of each payment made under the lease.

#### h) Grant awards

Positive decisions by Trustees are recognised in the Statement of Comprehensive Net Expenditure at the time of award. De-commitments occur when an award or part award is not taken up by a grantee.

### i) Segmental reporting and allocation of costs

International Financial Reporting Standard 8 requires information to be provided on segmental reporting where this is relevant to the activities of the organisation. Where relevant, senior management would identify separate streams of activity and assign operating costs to them pro-rata based upon the level of grant awarded, unless there was a significant difference in the manner in which applications were processed, in which case ad hoc methods would be utilised. However, other than accounting separately for its Lottery distribution activities, which NHMF is required to do under its Lottery accounts direction, Trustees do not believe that their grant-in-aid or their Lottery distribution activities can be divided into separate segments.

NHMF incurs indirect costs which are shared between activities funded by grant-in-aid and activities funded by the National Lottery. NHMF is required to apportion these indirect costs in accordance with *Managing Public Money*, issued by the Treasury. This cost apportionment seeks to reflect the specific proportion of time and expenses committed to each fund. At the end of the financial year, the proportion of joint costs apportioned to HLF was 99% (2010-11: 99%).

## 2. Grant-in-aid

	2011-12 £'000	2010-11 £'000
Grant from DCMS	0	0

## 3. Sundry operating income

This comprises:

	2011-12 £'000	2010-11 £'000
Repayments of grant	9	0
Donations and bequests	1	1
Receipts from investment managers	59	59
	69	60

Receipts from investment managers represent amounts paid to us by Schroders. It represents the difference between the fee negotiated under our contract with them and the underlying fee charged within the investment vehicle in which they invest – the Charity Multi-Asset Fund. The Multi-Asset Fund charges a higher fee rate than that agreed under the contract and so we receive a payment each quarter. The underlying fee charged within the Multi-Asset Fund is acquired by Schroders deducting the amount from the cash balances held within that

fund each quarter, thus impacting upon the value of the individual units of the Multi-Asset Fund. Thus the cost to NHMF of using Schroders is reflected within the value of its units. The Multi-Asset Fund invests in a number of unit and investment trusts, all of which will also have management fees built into them.

## 4. Staff costs and numbers

	2011-12 £'000	2010-11 £'000
Salaries	36	35
Employer's NI payments	3	3
Payments to pension scheme	7	6
Temporary staff costs	0	1
	46	45

Additional costs of £9,508,000 have been allocated to Lottery distribution activities and are reflected in those accounts.

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

	2011-12 Number	2010-11 Number
Grant applications	2	2
Finance and corporate services	0	0
Strategy and business development	0	0
Communications	0	0
	2	2

The above figures are disclosed as full-time equivalents. Additionally, an average of 227 permanent staff was employed on HLF activities.

## 5. Pensions

Pension benefits are provided through the Civil Service pension arrangements – the PCSPS. Since 30 July 2007, new staff without any previous membership of PCSPS are able to join Nuvos, which is an index-linked defined benefit pension scheme. This currently has a 3.5% member-contribution rate and will provide a defined benefit pension with a pension age of 65.

Staff who joined NHMF before 30 July 2007, or who have qualifying previous PCSPS membership on joining since that date, remain 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, classic plus and Nuvos are increased annually in line with pensions-increase legislation.

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium, classic plus and Nuvos. 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 and benefits for service after that date worked out as in premium. In Nuvos, a member builds up a pension based on pensionable earnings during the period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with pensions-increase legislation. In all cases members may opt to commute pension for a lump sum up to the limits set by the Finance Act 2004.

Members who joined NHMF from October 2002 could have opted for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution known as a Partnership Pension Account. 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 from a panel of three providers. 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 to cover the cost of centrally provided lump sum risk benefit cover (death in service and ill-health retirement).

There are currently five members of staff with a partnership pension account. No member of staff retired early on health grounds during 2011–12.

Employee contribution rates increased in April 2012 as outlined in Employer Pension Notice 314. The size of the percentage increase will depend upon the salary of the member of staff.

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 2011–12, employer's contributions of £6,498 (2010–11: £6,466) 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.

Further details about the Civil Service pension arrangements can be found at the website: <http://www.civilservice.gov.uk/my-civil-service/pensions/index.aspx>

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

Salary in 2011–12	% in 2011–12
£21,000 and under	<b>16.7%</b>
£21,001–£43,500	<b>18.8%</b>
£43,501–£74,500	<b>21.8%</b>
£74,501 and above	<b>24.3%</b>

## 6. Operating deficit

The operating deficit is stated after charging the following:

	2011–12 £'000	2010–11 £'000
Auditor's remuneration	<b>9</b>	10
Payments under operating leases		
– leasehold premises	<b>5</b>	6
– hire of plant and machinery	<b>0</b>	0

Additional costs of £7,136,000 have been allocated to NHMF's Lottery distribution accounts. As disclosed in note 1 to these accounts, NHMF is required to apportion its costs to its Lottery distribution activities. At the end of the financial year, the proportion of joint costs apportioned was 99%.

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

	2011–12 £'000	2010–11 £'000
Accommodation	<b>9</b>	11
Postage and telephone	<b>2</b>	1
Office supplies, print and stationery	<b>4</b>	4
Travel, subsistence and hospitality	<b>0</b>	1
Professional fees		
– grant-related	<b>4</b>	9
– non-grant-related	<b>11</b>	19
Communications	<b>19</b>	24
Sundry expenses	<b>5</b>	5
	<b>54</b>	74

## 7. Income from investments

	2011-12 £'000	2010-11 £'000
Long-term financial assets available for sale	0	205

Income has fallen significantly following the switch of investment manager from JP Morgan to Schroders in 2010. JP Morgan mainly invested the endowment fund directly in unit trusts which paid regular dividends to NHMF – the income in 2010-11 was earned this way. On the other hand, Schroders has invested the endowment fund in units in one fund which invests in a wide range of assets. Whilst those underlying assets pay dividends, the main Schroders fund does not pay dividends as its raison d'être is capital growth. Note 12 has further information.

## 8. Profit on the sale of investments

	2011-12 £'000	2010-11 £'000
Long-term financial assets available for sale	164	5,154

In 2010-11, the transfer of investment manager from JP Morgan to Schroders was undertaken by selling the investments managed by JP Morgan and transferring the cash to Schroders. Consequently, there was a much higher level of investment sales than is normal, resulting in much larger gains than normal.

## 11. Property, plant and equipment

	Short-leasehold property		IT and other equipment		Office fittings		Total	
	2011-12 £'000	2010-11 £'000	2011-12 £'000	2010-11 £'000	2011-12 £'000	2010-11 £'000	2011-12 £'000	2010-11 £'000
Cost at start of year	3	2	14	13	1	1	18	16
Additions	0	1	0	2	0	0	0	3
Disposals	(0)	(0)	(0)	(1)	0	0	(0)	(1)
<b>At end of year</b>	<b>3</b>	<b>3</b>	<b>14</b>	<b>14</b>	<b>1</b>	<b>1</b>	<b>18</b>	<b>18</b>
Depreciation at start of year	0	0	7	7	1	1	8	8
Charge for the year	0	0	2	1	0	0	2	1
Adjustment on disposal	(0)	(0)	(0)	(1)	0	0	(0)	(1)
<b>At end of year</b>	<b>0</b>	<b>0</b>	<b>9</b>	<b>7</b>	<b>1</b>	<b>1</b>	<b>10</b>	<b>8</b>
Net book value								
At start of year	3	2	7	6	0	0	10	8
<b>At end of year</b>	<b>3</b>	<b>3</b>	<b>5</b>	<b>7</b>	<b>0</b>	<b>0</b>	<b>8</b>	<b>10</b>

The Trustees have considered the current cost values of property, plant and equipment. A review of the current cost values at 31 March 2012 revealed no material difference to historic cost values. Therefore, no adjustment has been made to reflect current cost values of property, plant and equipment. The value of property, plant and equipment represents a proportionate split of the assets used by both NHMF's grant-in-aid and its Lottery distribution activities. This split is currently 99% Lottery and 1% grant-in-aid.

## 9. Interest receivable

	2011-12 £'000	2010-11 £'000
Bank interest receivable		
– Barclay's Bank	1	9
– Schroder & Co. Limited	24	94
	<b>25</b>	<b>103</b>

## 10. Cash and cash equivalents

	2011-12 £'000	2010-11 £'000
Instant access		
– Barclay's Bank	16	77
– endowment fund	0	29
– Schroder & Co. Limited	82	1,595
Seven-day notice		
– Schroder & Co. Limited	0	5,031
	<b>98</b>	<b>6,732</b>

Schroder & Co. Limited places the money on deposit with other financial institutions. At the year end, NHMF funds were with Nationwide Corporate International (Isle of Man).

## Finance leases

Some of the property, plant and equipment was held under finance leases, as shown in the table below. The figures are included in the above table.

IT and other equipment:

	2011-12 £'000	2010-11 £'000
Cost at start of year	1	1
Additions	0	0
Disposals	0	0
<b>At end of year</b>	<b>1</b>	<b>1</b>
Depreciation at start of year	0	0
Charge for the year	1	0
Adjustment on disposal	0	0
<b>At end of year</b>	<b>1</b>	<b>0</b>
Net book value		
At start of year	1	1
<b>At end of year</b>	<b>0</b>	<b>1</b>

Obligations under these finance leases are:

	2011-12 £'000	2010-11 £'000
Amounts for leases expiring		
– in one year	1	0
– in years two to five	0	1
	<b>1</b>	<b>1</b>

## 12. Long-term financial assets available for sale

NHMF was set up as successor to the National Land Fund. The Trustees believed that, of the initial grant-in-aid that established NHMF, the sum of £10million should be regarded as the residue of the National Land Fund and is known as the endowment fund. They decided to invest it with the aim 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 NHMF to meet its obligations. To this end, investment in readily marketable financial assets can be made outside the UK. A table below summarises the global investment spread. The surplus value of the endowment fund (ie the excess over the current value of the initial £10million) can be drawn down to fund NHMF's grant-giving. On occasions, Trustees have drawn down funds that take the value of the endowment fund below its target value. Trustees do this reluctantly and only when faced with the possibility of losing a significant part of the UK's heritage. In these circumstances, Trustees monitor the shortfall and use future grant-in-aid to replenish the endowment fund if capital growth does not exceed the increase in the Retail Prices Index.

At 31 March 2012, the original £10million investment would be worth £37.7million taking into account indexation – the actual market value is £26.4million.

The endowment fund comprises the following:

	Market value 2011-12 £'000	Book cost 2011-12 £'000
Long-term financial assets	26,398	24,080
Cash	0	0
	<b>26,398</b>	<b>24,080</b>

The proportion of this fund held in cash is disclosed in these accounts as a current asset – as part of the cash balances.

The endowment fund is invested in Schroders' Charity Multi-Asset Fund. The Multi-Asset Fund invests in a range of around 40 unit and investment trusts across many asset types and geographic markets. Units in the Multi-Asset Fund are sold to raise funds for grant payments and operating expenses. This is the reason that the assets are described as 'available for sale'. Trustees have no plans to liquidate the entire endowment fund.

At the start of the 2010-11, these investments were managed, on behalf of NHMF, by JP Morgan Asset Management (London) Limited. In the early part of the year, the investments were liquidated and the cash transferred to Schroders. This explains the high value of additions and disposals in 2010-11.

	2011-12 £'000	2010-11 £'000
Cost and net book value		
At start of year	26,929	24,926
Additions	88	33,716
Disposals	(2,937)	(31,657)
Accrued income	0	(56)
<b>At end of year</b>	<b>24,080</b>	<b>26,929</b>
Net book value		
Listed on the		
London Stock Exchange	0	0
Unlisted investments	24,080	26,929
	<b>24,080</b>	<b>26,929</b>
Cost	24,080	26,929
Market value	26,398	29,310
Unrealised gain	2,318	2,381

There is no liability to taxation on gains realised by NHMF.



**Notes to the Accounts**  
for the year ended 31 March 2012

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

	2011-12 %	2010-11 %
Bonds	7	5
UK equity	41	45
Europe equity (excluding UK)	2	4
North America equity	4	4
Japan and Far East equity	6	6
Emerging market equity	3	4
Global equity funds	6	3
Property	7	7
Absolute return/hedge	16	17
Private equity	0	1
Infrastructures	2	0
Cash	2	0
Commodities	4	4
	<b>100</b>	<b>100</b>

**13. Trade and other receivables**  
– all due within one year

	2011-12 £'000	2010-11 £'000
Prepayments and accrued income	25	34

No bad debt provision has been created as none of the above items is considered irrecoverable.

**14. Payables: amounts falling due within one year**

	2011-12 £'000	2010-11 £'000
Operating payables	1	1
Other payables including taxation and social security	4	2
Accruals and deferred income	38	41
	<b>43</b>	<b>44</b>

None of the liabilities of NHMF was secured. Of the above amounts for operating and other payables, £4,000 was payable to central government bodies (2010-11: £2,000).

**15. Grant commitments**

	2011-12 £'000	2010-11 £'000
At start of year	6,667	8,518
Grants paid in the year	(9,649)	(11,983)
Commitments created in the year	4,989	12,716
De-commitments	(643)	(2,584)
<b>At end of year</b>	<b>1,364</b>	<b>6,667</b>

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

	2011-12 £'000	2010-11 £'000
In one year	1,364	6,667
In two to five years	0	0
	<b>1,364</b>	<b>6,667</b>

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

	2011-12 £'000	2010-11 £'000
Balances owing to		
– central government	624	3,645
– local authorities	350	319
– other bodies	390	2,703
	<b>1,364</b>	<b>6,667</b>

**16. Commitments**

The total outstanding commitments under operating leases are as follows:

	2011-12 £'000	2010-11 £'000
Short-leasehold property		
– expiring in one year	0	0
– expiring in years two to five	0	0
– expiring thereafter	91	96
	<b>91</b>	<b>96</b>

In addition, short leasehold property lease commitments of £10,839,000 (2010-11: £11,418,000) have been charged to NHMF's Lottery distribution activities and are disclosed in those accounts.

On 23 March 2011, the Committee on Climate Change (CCC) signed an undertaking for most of the first floor of NHMF's offices, at 7 Holbein Place, London. On 24 May 2011, CCC signed an underlease. This underlease is for approximately 13 years and will result in rental payments to NHMF totalling £1.7million – almost all of which will be re-assigned to NHMF's Lottery distribution activities. The expected receipts from CCC have not been deducted from the commitments disclosed in the above table.

On 6 May 2011, we completed our lease for a replacement Exeter office for a period of eight and a half years to 28 September 2019 with a total commitment of £201,995. On 30 March 2012, we renewed the lease for our Leeds office for a period of seven years to 28 February 2019 with a total commitment of £319,235. All these costs will appear in the accounts of NHMF's Lottery distribution activities.

International Accounting Standard 17 requires property leases to be split between their land and buildings elements. No split has been made in the above figures for short-leasehold property as the amount of land under the leases is negligible.

NHMF has no capital commitments contracted for, or capital commitments approved but not contracted for.

## 17. Notes to the Statement of Cash Flows

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

	2011-12 £'000	2010-11 £'000
Operating deficit	(4,379)	(10,192)
Interest receivable	25	103
Add back non-cash items		
– depreciation	2	1
– movement in provisions	0	0
– decrease in grant commitment reserve	(5,303)	(1,851)
Decrease/(increase) in receivables (excluding capital and investments)	9	(32)
Decrease in non-capital payables	(1)	(5)
Net cash outflow from operating activities	<b>(9,647)</b>	<b>(11,976)</b>

### b) Capital expenditure and financial investment

	2011-12 £'000	2010-11 £'000
Payments to acquire		
– property, plant and equipment	(0)	(3)
– intangible fixed assets	(0)	(0)
– long-term financial assets available for sale	(88)	(33,716)
Receipts from sales of		
– property, plant and equipment	0	0
– long-term financial assets available for sale	3,101	36,811
	<b>3,013</b>	<b>3,092</b>

### c) Analysis of changes in net funds

	At 1 April 2011 £'000	Operating cash flows £'000	Grant-in-aid £'000	At 31 March 2012 £'000
Cash at bank	6,732	(6,634)	0	<b>98</b>

## 18. Related-party transactions

NHMF is a non-departmental public body sponsored by DCMS. DCMS is regarded as a related party. During the year, NHMF (including its Lottery distribution activities) has had various material transactions, other than grant awards, with two entities for which DCMS is regarded as the sponsor department, being the Big Lottery Fund and English Heritage. There have also been material transactions with the National Assembly of Wales as we use Cadw to provide expert advice and monitoring on some Lottery transactions. Further details of these transactions and balances can be found in the accounts of the Lottery distribution activities of NHMF.

On 23 March 2011, the Committee on Climate Change (CCC) signed an undertaking for most of the first floor of NHMF's offices, at 7 Holbein Place, London. CCC is a non-departmental public body which is jointly sponsored by the Department of Energy and Climate Change, DEFRA, the Scottish Government, the Welsh Assembly Government and the Northern Ireland Executive. On 24 May 2011, CCC signed an underlease. This underlease is for approximately 13 years and will result in rental payments to NHMF totalling £1.7 million. In addition, there will be contributions to service charges of around £70,000 per annum at 2011-12 price levels. At 31 March 2012, there was £10,000 owed for service charges.

Trustees and expert panellists are required to declare their connection at the start of each meeting and absent themselves from any part of that meeting where that grant application is discussed. They take no part in the decision as to whether a grant is awarded or any subsequent decision made about the grant. There are strict rules on the circumstances in which Trustees and panellists can accept paid work from a grantee. Therefore, Trustees are satisfied that in no case did the individuals have an influence on the decision-making process.

No Trustee or panellist had an interest in NHMF awards which the Fund made in 2011-12. Details of interests in Lottery grants are set out in the accounts of the Lottery distribution activities of NHMF.

There were no other commercial transactions in which Trustees or staff had a material interest or influence.

Related-party transactions will have also occurred in 2011-12, in the form of grant payments, relating to awards made in previous years. Related-party transactions for awards made in previous years will have been disclosed in the accounts of those years and are not repeated here.

## Notes to the Accounts

for the year ended 31 March 2012

### 19. Fair value reserve

	2011-12 £'000	2010-11 £'000
At start of year	2,381	6,245
Movement in the year	(63)	(3,864)
<b>At end of year</b>	<b>2,318</b>	2,381

The reserve relates to the difference between book cost and market value of long-term financial assets available for sale (see note 12). The difference between book and market value of property, plant and equipment (see note 11) is not material.

### 20. Financial instruments

Full disclosure under IFRS 7, 'Financial Instruments: Disclosures', is in the management commentary.

### 21. Statement of losses

NHMF made no losses during the year (2010-11: £0).



# Chair, Trustees and Management

## Chair and Trustees of NHMF

### *Chair*

Dame Jenny Abramsky <sup>2</sup>

### *Trustees*

Kim Evans <sup>2</sup>

Yinnon Ezra <sup>1</sup>

Kathy Gee

Doug Hulyer <sup>1</sup>

Dan Clayton Jones *to 11 January 2012*

Hilary Lade <sup>2</sup>

Alison McLean <sup>1</sup>

Richard Morris *from 16 May 2011*

Atul Patel <sup>2</sup> *from 16 May 2011*

Seona Reid *from 1 April 2011*

Ronnie Spence <sup>1</sup>

Virginia Tandy

Richard Wilkin <sup>2</sup> *to 11 January 2012*

Manon Williams *from 12 January 2012*

Christopher Woodward

## Management Board

### *Chief Executive*

Carole Souter <sup>2</sup>

Robert Bewley

Karen Brookfield

Judith Cligman

Anne Jenkins

Louise Lane

Eilish McGuinness

Sheena Vick

Steve Willis

<sup>1</sup> Member of Audit Committee

<sup>2</sup> Member of Finance and Resources Committee  
(which also covers remuneration)

## NHMF investment panel

Sarah Bates

Richard Killingbeck

Sir Laurie Magnus

## NHMF advisory panel

Noel Annesley

Sir John Guinness

Richard Ovenden

Rosalind Savill

Jonathon Scott

Giles Waterfield

## NHMF team

### *Head of NHMF*

Fiona Talbott

020 7591 6008

### *Senior Grants Officer*

Vanessa Wells

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### *Grants Officer*

Suzanne Baker

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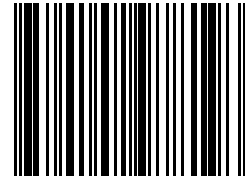
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