

NATIONAL  
HERITAGE  
MEMORIAL  
FUND



# Annual Report and Accounts

for the year ended 31 March 2019





# National Heritage Memorial Fund

Annual Report and Accounts for the year ended 31 March 2019

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## Foreword by Sir Peter Luff

Chair of the National Heritage Memorial Fund



*“In 2018–19 we funded a varied range of treasures.”*

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The Fund, now in its 40th year, has its origins in a similar scheme established by Hugh Dalton in the immediate aftermath of the Second World War. Its purpose is to create a lasting heritage memorial for those who gave their lives for the country in armed conflict. This gives it a unique and important role in safeguarding those most important parts of the nation’s heritage which, for whatever reason, are at risk of loss.

This year, then, we were pleased to support, close to the centenary of Armistice Day, the painting of the same name by Sir John Lavery, which depicts Armistice celebrations at Hyde Park Corner. The painting skilfully conveys both the happiness and the mourning of that day and now provides a fitting memorial within the collections of the Imperial War Museum.

Since 1980 we have supported many thousands of urgent acquisitions and conservation works, from land and buildings to documents, objects and works of art. In 2018–19 we funded a varied range of treasures including the Whitehouse Collection of John Ruskin material, Hogarth’s seminal conversation piece *The Wollaston Family*, a rare 16th century miniature depicting the Spanish Armada, the exquisite 13th century Lyghfield Bible and a pair of Champagne standard lamps which were a design collaboration between Salvador Dalí and Edward James.

In what has been a strong year for our support of visual art we also supported the acquisition of paintings ranging from John Bellany’s imposing *The Boat Builders* to Spencer Gore’s exquisite view of *The West Pier, Brighton* and Nainsukh of Guler’s masterpiece *The Trumpeters*. We were also pleased to be able to support the purchase of the visual archive of Meryvn Peake, which will now complement the writer and illustrator’s manuscript archive at the British Library.

*“NHMF plays a unique role in safeguarding those most important parts of the nation’s heritage which are at risk of loss.”*

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More unusually for NHMF, this year saw the acquisition of two distinctive heritage properties.

Gwyrch Castle, near Abergele in North Wales, is a striking example of early 19th century romanticism and the picturesque. NHMF’s support will enable continuing public access to this stunning site.

Ham Hill in North Somerset is scheduled as an ancient monument for its Medieval, Roman and Neolithic heritage and has now been permanently secured as part of the Ham Hill Country Park.

These are just some of the 15 acquisitions we supported this year, all of which were of importance to the nation’s heritage and were of outstanding interest.

As we move into 2019–20, we see a continuing high level of demand for assistance from institutions across the United Kingdom, to help them maintain public access to important – and varied – parts of the national heritage. Without the generous support of the Treasury, this would not be possible.

At the beginning of 2019 we launched our new Corporate Strategy, which addresses both our National Lottery distribution work and that of the Memorial Fund itself. This next year will see us delivering on the vision that plan sets out, leading strategically for the full breadth of heritage across the whole of the UK.



**Sir Peter Luff**  
Chair of NHMF







**Purchase of the Lyghfield Bible  
(the 'Canterbury Trussel Bible')**

Canterbury Cathedral  
£95,976

NHMF granted Canterbury Cathedral £95,976 to help them return this beautiful 13th century Bible to their library. Inscriptions in the Bible itself identified it as having been a part of the Cathedral's collection by the late 1200s. Removed around 1540, following the Reformation, it has returned to where it undoubtedly belongs after an absence of 500 years.

**Armistice Day, November 11th, 1918,  
Grosvenor Place, London by Sir John Lavery**

Imperial War Museums  
£140,000

An award of £140,000 from NHMF to Imperial War Museums (IWM) helped them to secure this unique depiction of the events of Armistice Day 1911. Sir John Lavery painted this scene from the window of what was then St George's Hospital at Hyde Park Corner. This eyewitness rendering of the joy and sorrow of that day is now on permanent public display at IWM London.

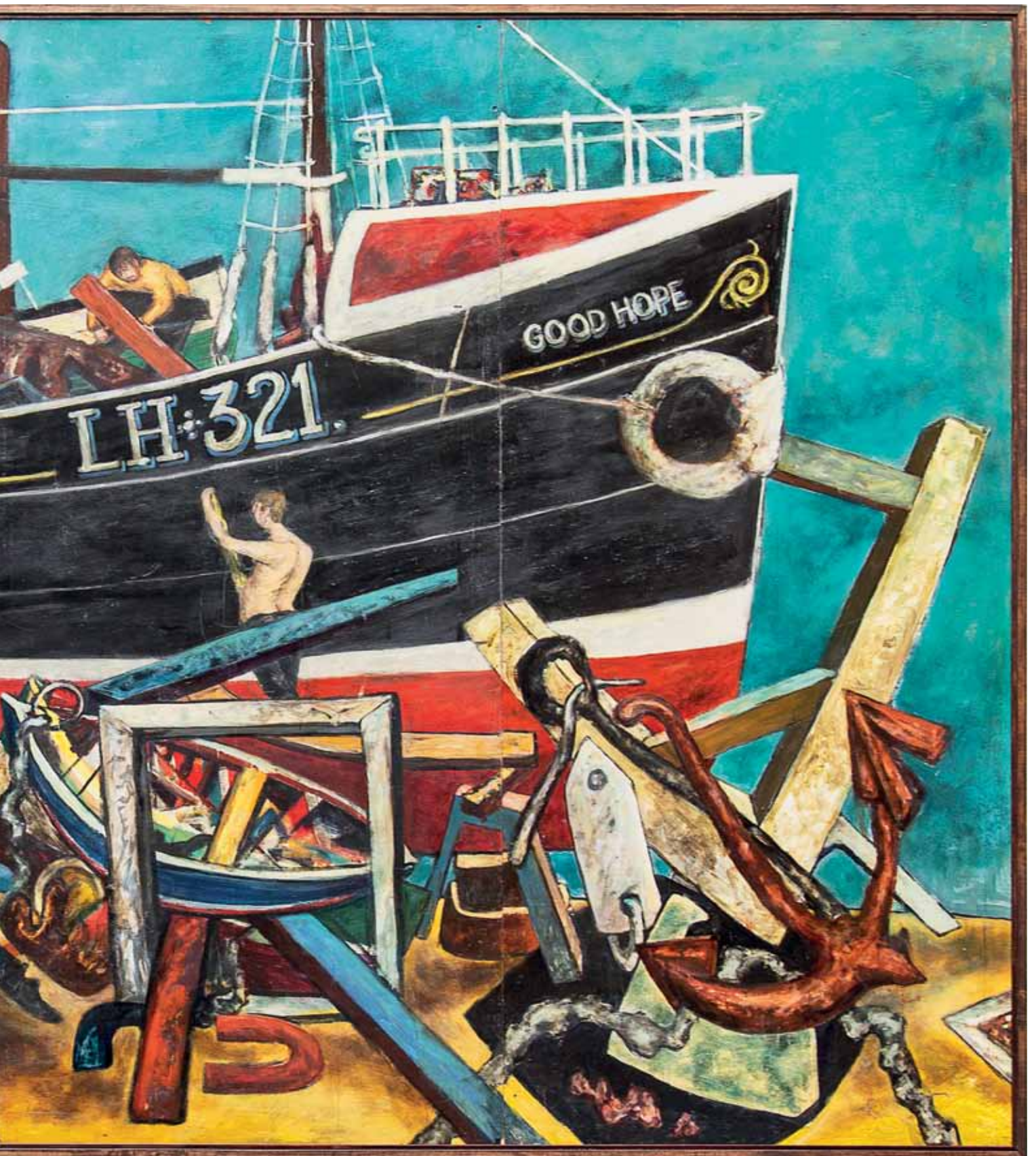


**John Bellany's *The Boat Builders***

Scottish Maritime Museum

£95,000

This stunning large-scale 1962 painting by John Bellany depicts a scene familiar to the artist from his childhood: fishing boat builders working in the yard at Port Seton. It now hangs in the Scottish Maritime Museum, a fitting tribute to the skill of the artist and Scotland's proud maritime history.



**Purchase of the Bruce-Oosterwijck  
longitude pendulum sea clock**

National Museums Scotland

£36,000

This remarkable survival is now in the collections of National Museums Scotland thanks to a grant from NHMF. Made in 1662, the sea-clock was one of the earliest attempts to solve the problem of accurately calculating longitude while at sea, and was not ultimately a success. However, as an example of the sophistication of 17th century Scottish scientific and intellectual endeavour, it is outstanding.



**Acquisition of Spencer Gore's  
*The West Pier, Brighton***

Royal Pavilion and Museums

£118,000

This key work by Spencer Gore was first exhibited in Brighton as a part of a 1913 exhibition by artists from the Avant-Garde school. NHMF gave Royal Pavilion and Museums a grant towards acquiring this historic view of Brighton's West Pier, which was destroyed by fire in 2003. The display of the painting will be shared by two local museums, Brighton Museum and Hove Museum and Art Gallery.

Museum of the Near Future: Purchase of the Whitehouse Ruskin Collection

Lancaster University

£2,340,000

Comprising the papers, artworks and books of John Ruskin (1819–1900) this collection is an unparalleled representation of his work. On bailment at the Ruskin Library at Lancaster University since 1995, the collection was under threat of dispersal through sale; the NHMF grant of £2,340,000 enabled its acquisition and continued public access at the Ruskin Library. The acquisition also enables Lancaster University to plan and deliver an expanded programme of public engagement with the archive, connecting new and wider audiences with Ruskin's vision and legacy.



1854 daguerreotype by John Ruskin of Chamonix, one of the earliest known photographic images of the Alps



## Acquisition of the Mervyn Peake visual archive

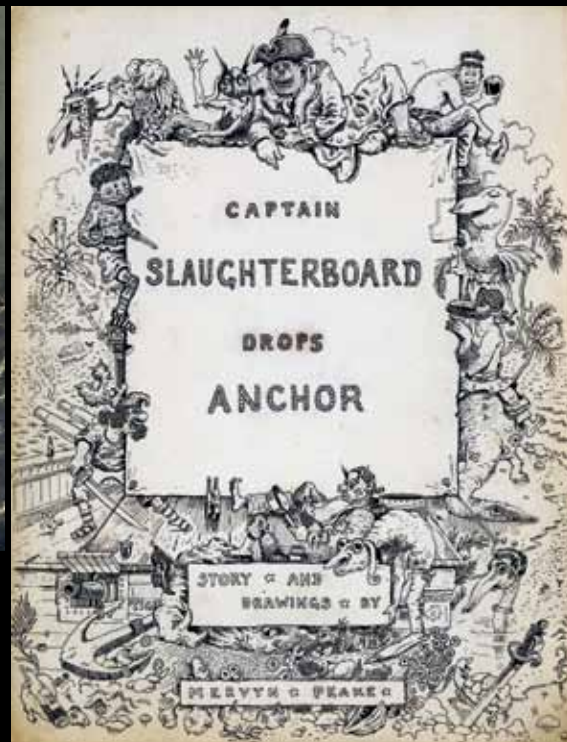
The British Library

£90,000

Following its acquisition of Mervyn Peake's manuscript collection in 2010, the British Library purchased this trove of Peake's visual material using a grant from NHMF. The result is a unified archive documenting the works of a key figure in 20th century British art and literature. Although best known as the author of the *Gormenghast* trilogy of gothic fantasy novels, Peake's main creative output was illustration, and he himself made it clear that it was his art that inspired his writing.



From left to right: Original book illustration for *Snow White* from *Grimms' Household Tales*, 1946; title page for *Captain Slaughterboard Drops Anchor*, 1939; and three illustrations for *Treasure Island*, 1949



**Land acquisition at Ham Hill**

**South Somerset District Council**

**£233,500**

South Somerset District Council was awarded £233,500 to purchase 73 acres of land at Ham Hill Country Park, a site of great importance to the study of Medieval, Roman, and Neolithic Britain. Human habitation of the site dates back to the 37th century BC, with settlers drawn to its imposing hilltop, and significant geological and ecological interest can be added to this historic value. By bringing the land into full public ownership, NHMF has contributed to the long-term preservation of the land and its continued enjoyment by visitors to the park.



## Nainsukh's *The Trumpeters*

The British Museum

£110,000

This lively and unusual representation of a group of Indian musicians was painted by the master miniaturist, Nainsukh of Guler, around 1740. Brought to the UK by the artist Winifred Nicholson, she acknowledged this extraordinary painting as an influence on her pioneering work with colour. Having been export stopped, it was acquired by the British Museum where it will be a key work in their South Asian collection.









### Saving Hogarth's *The Wollaston Family* for the nation

Leicester City Museums Service

£393,575

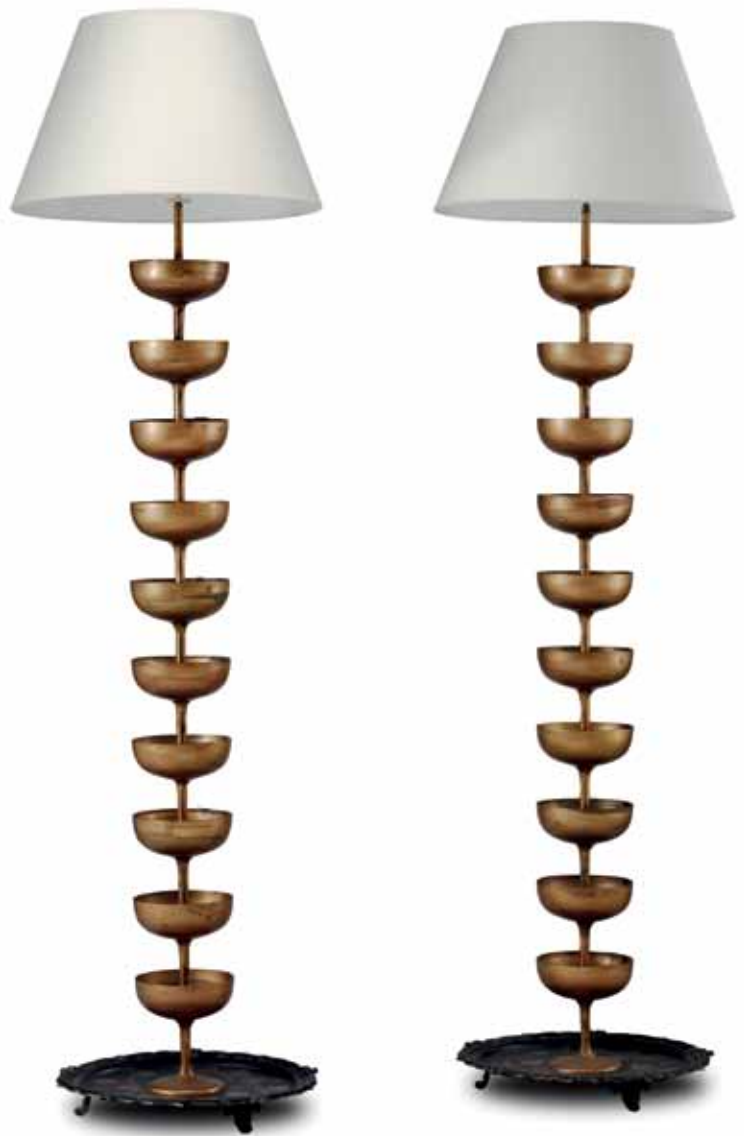
Our grant enabled Leicester City Museums Service to acquire *The Wollaston Family* by William Hogarth. Painted in 1730, the work is one of Hogarth's most important conversation pieces, in a style he established as being uniquely English. The painting has been on loan to Leicester since 1943, a prominent and important focus of display at the New Walk Museum and Art Gallery, where it is now secured for the future. Leicester City Museums intend to mark their ownership of the painting through a range of new engagement activities, developing fresh narratives and partnerships focused on the painting.

**A pair of Champagne  
standard lamps**

Victoria and Albert Museum

£200,000

Designed by Salvador Dalí and Edward James for the latter's Sussex home, these unique Surrealist lamps were sold to an overseas buyer at auction last year. The lamps were considered so important to the UK's design heritage that the granting of an export licence was deferred in order to allow a British institution to acquire them. The V&A, with the aid of a grant from NHMF, successfully purchased them and they are now displayed alongside Dalí's famous Lips sofa.



**Acquisition of the Granville Archive**

The British Library

£865,200

The Granville Archive comprises the papers of the politically prominent Leveson-Gower family, including significant political and personal correspondence, providing a comprehensive illustration of 18th and 19th century British political and social history. The archive is exceptional for the strength and range of correspondence from female political influencers, with great potential for new discoveries particularly through the previously inaccessible Devonshire House trunk correspondence. Acquisition will enable full cataloguing of the archive and public access through the British Library's Reading Rooms and exhibition galleries.



Spanish Armada miniature

National Museums Northern Ireland

£115,000



NHMF's award enabled National Museums Northern Ireland to secure a c.1600 cabinet miniature depicting the Spanish Armada, which was export stopped and at risk of loss to the UK. The work of a Netherlands artist, the miniature is a rare early depiction of the Armada, which also shows Elizabeth I rallying her troops at Tilbury. It is also

important as an example of the emerging genre of marine painting. The newly acquired miniature has a strong resonance with NMNI's collections, which includes items from the wrecks of two Armada vessels, that foundered on the coast of County Antrim after being harried around the Scottish coast by British and Dutch vessels.





## Securing the future of Gwrych Castle

Gwrych Castle Preservation Trust

£595,400

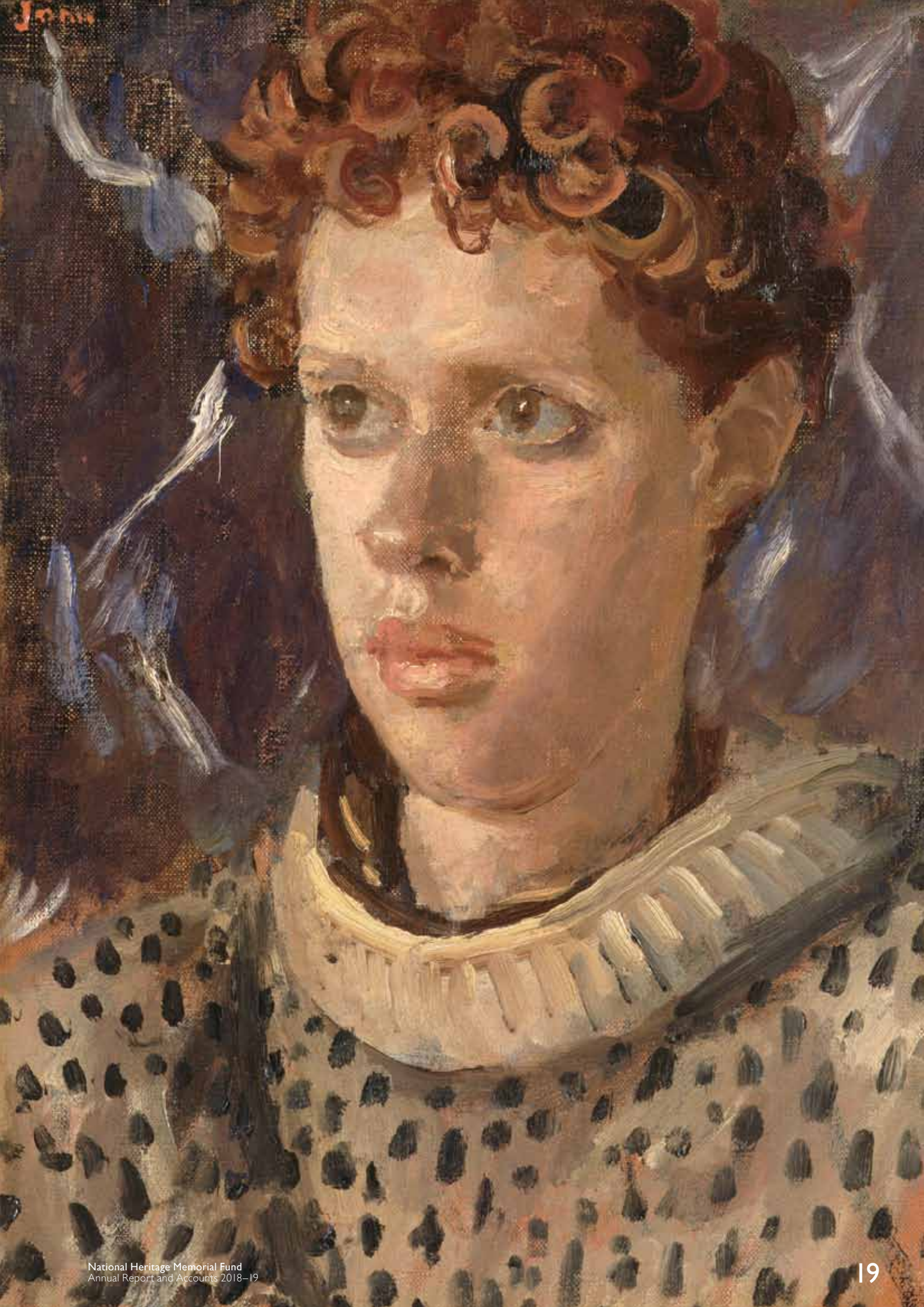
Our grant to the Gwrych Castle Preservation Trust enabled their acquisition of Grade I listed Gwrych Castle, near Abergele in North Wales, a dramatic monument to early 19th century romanticism and the picturesque, which had fallen into a ruinous and at-risk state. The trust had leased part of the castle, working to restore the structure and gardens, facilitating daily public opening and events. The NHMF award supported the trust to acquire the whole castle site, securing its future and enabling their vision of restoring the castle and extending public access.

## Acquisition of the portrait of Dylan Thomas by Augustus John

National Portrait Gallery

£94,800

The National Portrait Gallery was awarded a grant of £94,800 towards the acquisition of this portrait. It was painted in 1937 by Dylan's close friend and compatriot, Augustus John. This vibrant and compassionate portrayal of the poet had been on long term loan to the gallery for many years and has now joined their permanent collection.



# Report of the Trustees and Accounting Officer

## Performance report

### Overview

Purpose – the purpose of the performance report is to provide information on the Board of Trustees, the organisation's main objectives and strategies and the principal risks it faces. The overview section gives the user information to understand the Board, its purpose, the key risks to the achievement of its objectives and how it has performed during the year. The analysis section is where the Board reports on its most important performance measures, including analysis using financial information from the financial statements.

#### Our performance in 2018–19:

##### A statement from the Chief Executive

2018–19 was a very busy and important year for the work of the National Heritage Memorial Fund (NHMF or the Fund).

We finalised the remaining work on the Listed Places of Worship: Roof Repair Fund programme that started in 2014–15. Over 900 places of worship have now been repaired and improved right across the UK through an investment in excess of £50million.

The ongoing work of our NHMF team on our standard grants has also helped to save some remarkable items for heritage across the nation and widened public access to these wonderful pieces of heritage. The range and diversity of our grants in the year demonstrates the unique value that NHMF brings to the nation's heritage.

These included:

- Gwyrch Castle in Abergale, North Wales – an outstanding example of a romantic, castellated mansion
- Whitehouse Ruskin Collection for the library, papers and artwork of John Ruskin
- The Bruce-Oosterwijck sea clock – an early 17th century attempt to calculate longitude designed by Alexander Bruce
- Ham Hill, part of the Shuldhams Estate in Somerset – an exceptional historic, environmental and natural heritage covering centuries of occupation
- The Spencer Gore painting of *The West Pier, Brighton* as an early example of the English Avant-Garde style

From April 2018 we have taken additional income of around £810,000 per annum from our endowment fund to supplement our grant-in-aid income to provide further funding for these exceptional items of heritage. That has worked effectively during the year and where practicable we will continue with that in future years.

Finally, let me thank our NHMF staff. They work with great integrity and professionalism, are truly committed to the work of NHMF and provide an exceptional service to the nation's heritage.

#### Our purpose and activities

NHMF is vested in and administered by a body corporate known as the Trustees of the National Heritage Memorial Fund, consisting of a Chair and not more than 14 other members appointed by the Prime Minister. The Fund was set up on 1 April 1980 by the National Heritage Act 1980 ('the 1980 Act') in succession to the National Land Fund as a memorial to those who have given their lives for the UK. 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 the proportion of National Lottery proceeds allocated to 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 National Lottery Heritage Fund (formerly the Heritage Lottery Fund or HLF) for receipts under the provisions of the 1993 Act.

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 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 The National Lottery Heritage Fund. Trustees believe that NHMF has a vital role as the central defence in protecting the nation's items of outstanding importance that 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 that is threatened by destruction or loss.

#### Our key issues and risks

Our ongoing risk remains the balance between demand for NHMF grants and the limited budget we have available (approximately £5.6million). We manage that risk by effectively prioritising grants, critically assessing requests and where appropriate directing these towards our National Lottery funding streams. The additional £810,000 from our endowment fund is also assisting in managing that risk.

Finally, our endowment fund which is invested in the Cazenove Multi-Asset Charity Fund is exposed to risks from investment and, therefore, potentially impacted by the UK's departure from the European Union. We have a prudent investment risk management approach agreed with our Investment Manager incorporating a spread of investment that also reflects current exposure. Our specialist Investment Panel continues to provide advice and risk assessment judgments against this backdrop.

#### Going concern basis

The accounts have been prepared on a going concern basis. 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 2019–20 that is not expected to alter that position. The Board has no reason to believe that the Fund will not continue to operate in the foreseeable future.

#### Performance summary

The scale of our work means we have limited performance indicators but these are shown in the section of this report on key performance indicators on page 24. Our most significant indicator was as follows:

Indicator (for standard awards only)	Outcome in 2018–19
NHMF costs will be under 5% of grant-in-aid	Not met (5.6%)

It is obviously disappointing that we have not met the target set by the Department for Digital, Culture, Media and Sport (DCMS). We were, however, a different organisation when the target was set a

number of years ago; before we were able to fully interpret the effect of the Listed Places of Worship programme on our costs and before the organisation restructure. Furthermore, our grant-in-aid this year was artificially lowered by our having to return some leftover LPOW money when that programme ended. Using our normal level of grant-in-aid (£5million), the cost percentage falls to 5.2%. If we include all our income in the calculation, then the percentage is within the target, at 4.4%. The impact of certain elements of the Corporate Strategy will be felt in the short term on our cost base. The strategy looks beyond our traditional grant-in-aid and National Lottery distribution activities and, whilst we explore other areas, there could be a transient increase in our costs. We will seek to incorporate this in our discussions with DCMS over a revised management agreement when the current one renews in 2020.

#### Performance analysis

The National Heritage Memorial Fund received 15 applications, all of which were funded by Trustees to the total of £5,522,451. This year, as in past years, the Fund has supported the acquisition of a wide range of important and significant heritage across all four nations of the United Kingdom.

The Fund was established as a lasting memorial to those that had given their lives to this country. On that basis the Fund can help buy anything which is of outstanding importance to the national heritage and either at risk or of memorial character. In terms of the latter category the Imperial War Museums acquired the painting *Armistice Day November 11th, 1918, Grosvenor Place, London* by Sir John Lavery. It was painted on Armistice Day 1918, from an upper story window in St George's Hospital (now the Lanesborough Hotel). It shows the Wellington Arch at Hyde Park Corner in central London and depicts the celebrations around Armistice as witnessed by Lavery.

The Fund continues to support the retention of outstanding heritage in the UK through grant-aid for items which are under an export deferral licence. The British Museum acquired *The Trumpeters* by Nainsukh of Gular. This painting depicts a group of musicians and is an unusual representation of an 18th century Indian musical performance. It was purchased by the artist Winifred Nicholson around 1920 when she accompanied her politician father on a working visit to India. National Museums Northern Ireland acquired a cabinet miniature depicting the Spanish Armada dating to c1600–05. It is a rare early depiction of the Armada and is an early example of the then emerging genre of marine painting. The third item was a pair of Champagne standard lamps by Edward James and Salvador Dalí

for the Victoria and Albert Museum. The lamps were originally a part of the Surrealist interior scheme of Monkton House in West Sussex and the museum will display them in their 20th century gallery alongside another James/Dalí collaboration, the Mae West lips sofa, and other examples of Surrealist furniture in their collections.

We continue to fund the acquisition of significant archival and literary heritage. The British Library had two awards this year. The first was for the Granville Archive, which spans four generations of the politically prominent Leveson-Gower family through the 18th and 19th centuries. The second award was the collection of Mervyn Peake's illustrations, paintings and sketches. This brought together his artistic work with his literary archive, which the library purchased in 2010 giving them much the largest and most complete archive of Peake's output. The third archive is the Whitehouse Ruskin Collection acquired for Lancaster University. The collection was on bailment at the Ruskin Library at the University, and comprised of the library, papers, and artworks of John Ruskin. The collection was amassed by John Howard Whitehouse, founder of the Bembridge School on the Isle of Wight, educationalist, Liberal MP and disciple of Ruskin.

The final item of literary heritage is the Lyghfield Bible named after the 16th century Canterbury Cathedral monk who once owned it. This 690-leaf volume was written in the latter 13th century on high quality parchment or vellum and is the only complete bible from the medieval book collection at the Cathedral. It is the finest example of a complete illuminated book from that collection and will be displayed in the new exhibition area at the Cathedral as part of The Canterbury Journey project.

We funded a number of artworks this year. The Royal Pavilion and Museums acquired *The West Pier, Brighton* by Spencer Gore. It will be exhibited in Brighton and Hove Museums in the context of works by the Camden Town Group and part of their collection of representations of the sea-front in various media. The National Portrait Gallery secured a portrait of the poet Dylan Thomas by Augustus John which had been on loan to the gallery for over 20 years. It will continue to be displayed in their newly refurbished 20th century galleries. Leicester City Museums Service acquired *The Wollaston Family* by William Hogarth. The painting was on long term loan to Leicester and the vendor offered the work via the Acceptance in Lieu scheme. The painting is one of Hogarth's most important conversation pieces and was commissioned by William Wollaston, then passed through the Wollaston family in unbroken descent. Finally the Scottish Maritime Museum acquired *The Boat Builders* which is regarded as one of the finest works by the highly

regarded Scottish artist John Bellany. The painting, created early on in Bellany's career, is of outstanding interest capturing Scotland's boatbuilding heritage.

Also in Scotland we helped National Museums Scotland purchase a 17th century sea clock. This clock was an early attempt to solve the problem of accurately calculating longitude while at sea. It was designed by Scottish scientist Alexander Bruce in collaboration with the inventor of the pendulum clock, Christiaan Huygens. It is one of the earliest surviving scientific instruments designed by a Scot and as such of outstanding importance to the history of science in Scotland.

Alongside the portable heritage we supported, we helped Gwrych Castle Preservation Trust buy Gwrych Castle, near Abergele in North Wales. The Grade I listed castle is ruined and was at risk of physical deterioration. The castle and its setting is considered one of the finest examples of picturesque architecture in Britain. The Trust will now set out plans to renovate the castle and the 250 acres of park and woodland. An Iron Age hillfort at Ham Hill was purchased by South Somerset District Council. The 73 acres of Shuldhham Estate land at Ham Hill Country Park makes up a portion of a Scheduled Ancient Monument. It has a significant place in both national and local history having been occupied since the Bronze Age, with significant settlements and fortifications during the Iron Age, and evidence of later Roman occupation.

The finishing touches were made to the Listed Places of Worship: Roof Repair Fund (LPOW Roof Repair Fund) work we started in 2014–15. On behalf of the government, over the last four years we have invested over £53million into 907 places of worship across the UK. The final payment was made in July 2018 when the last of the projects to be finished completed its work. We were very pleased with the final expenditure outcome which maximised the amount of funding going direct to places of worship.

Two rounds of LPOW Roof Repair Fund were run. We commissioned external consultants to evaluate the first round of funding and carried out our own, in-house review of the second round. The feedback on the programme was very positive with our applicants commenting on the impact the funding had had on ensuring their buildings were wind and water-tight; on the skills and confidence they had gained as a result of undertaking their projects; and on the quality of the programme and the staff who delivered it.

A list of standard grants awarded is shown on page 23. Total standard grants awarded came to £5.5million. There were no further awards made under the LPOW Roof Repair Fund as the scheme was coming to an end. Readers of last year's annual report will

Acquisition	Applicant	Awarded
<i>Armistice Day, November 11th, 1918, Grosvenor Place, London</i> by Sir John Lavery	Imperial War Museums	£140,000
Bruce-Oosterwijk sea clock	National Museums Scotland	£36,000
Champagne standard lamps	Victoria and Albert Museum	£200,000
<i>Dylan Thomas</i> portrait by Augustus John	National Portrait Gallery	£94,800
Granville Archive	The British Library	£865,200
Gwrych Castle	Gwrych Castle Preservation Trust	£595,400
Ham Hill	South Somerset District Council	£233,500
Lyghfield Bible (the 'Canterbury Trussel Bible')	Canterbury Cathedral	£95,976
Mervyn Peake visual archive	The British Library	£90,000
Spanish Armada miniature	National Museums Northern Ireland	£115,000
<i>The Boat Builders</i> by John Bellamy	Scottish Maritime Museum	£95,000
<i>The Trumpeters</i> by Nainsukh	The British Museum	£110,000
<i>The West Pier, Brighton</i> by Spencer Gore	Royal Pavilion and Museums	£118,000
The Whitehouse Ruskin Collection	Lancaster University	£2,340,000
<i>The Wollaston Family</i> by William Hogarth	Leicester City Museums Service	£393,575
<b>Total standard grants awarded</b>		<b>£5,522,451</b>

recall that we created a provision for awards that we did not expect to be paid out – because grantees were slow in making claims. However, the end of the scheme concentrated minds and there was a surge of payment requests. This demonstrated that our provision was overly pessimistic – hence our net de-commitments figure resulted in an increase in grant liabilities rather than the more usual decrease; note 13 discloses the numbers.

We received net grant-in-aid of £4.63million in the year (2017–18: £12.46million). £5million was our standard annual grant, but unusually we repaid some funds to our sponsor department. £371,000 was given back to DCMS representing money not required by the LPOW programme. We had received these funds in 2017–18 to support LPOW grant payments that continued into the early months of this year.

Despite LPOW Roof Repair Fund activity coming to an end, there was little impact on our reported operating deficit, which fell by £0.1million to £6.3million. As mentioned above, there were no further LPOW Roof Repair Fund awards. The value of our standard awards fell slightly from £5.7million to £5.5million, but last year's number was inflated by a one-off donation from the Northern Ireland Executive. In reality, the level of our standard awards rose very slightly by £10,000.

Despite the reported operating deficit we had over £46million of net assets at the year end; although £17million of this relates to the unrealised surplus in the value of the endowment fund. We have

transferred some of the investment units in our endowment fund from capital appreciation to income generation. This has generated around £800,000 in the year allowing us to increase our grant award budget. The government has started its spending review – the current one ends next year – and we will be pressing for an increase in our grant which has remained unchanged for many years.

At the same time that our non-grant-in-aid income levels rose, our administrative costs fell as the LPOW Roof Repair Fund came to an end. The net level of costs exceeded our net grant-in-aid and so our tangible reserves fell slightly from £29.6million to £28.8million.

The return on the endowment in the year was a rise of 4.1%. The rate of return was an improvement on last year's 1.1% and was better than we achieved via our bank accounts. Obviously, whilst our investment managers apply their expertise, the main influence on return is the performance of world stock markets, which have had a good year. The endowment fund investment policy had been purely one of capital accumulation, but many years of good returns had resulted in an endowment fund valued at higher than its target level. So the decision was made to take some of the value out of the endowment by switching some capital units to income units. This resulted in higher income for us with the likely impact of reduced level of capital appreciation in the future. We had aimed to raise £750,000 from this change of policy, but buoyant market conditions meant that over £800,000 was raised.

Cash figures fell significantly during the year to end at £2.1million down from £7million at the start of the year. The value of grants paid in the year went up from £8.9million to £10.2million reflecting the late surge of payments for LPOW (£2.5million) as well as the high level of unpaid grant liabilities at 31 March 2018 (£5.3million) which were paid out during 2018–19.

#### Key performance indicators

Trustees recognise that NHMF should strive for high performance in its activities. To this end there are three performance indicators in our current funding agreement with DCMS (along with the administrative efficiency indicator reported above). 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. The Fund is achieving the great majority of its targets thereby demonstrating an effective service to our applicants and grantees (see table below).

#### Payables

NHMF adheres to the government-wide standard on bill-paying and the Public Contracts Regulations 2015, which states that all valid bills should be settled within 30 days. In 2018–19 the average age of invoices paid was six working days (2017–18: five working days). Over 96% of invoices were paid within 30 calendar days (2017–18: 96%).

Another way of measuring our commitment to paying suppliers is the ratio of creditor days – the ratio of trade payables at the end of the year to the total value of purchases in the year expressed in terms of calendar days. At 31 March 2019, the figure was 35 days (2017–18: 30 days). The figure is much higher at the year-end than at other times of the

year because we encourage suppliers to submit their invoices before the year ends.

#### Environmental policies and sustainability reporting

HM Treasury requires all public sector bodies to produce an annual sustainability report. The compilation of this data is unfortunately not an exact science. For example, very few of the landlords of our 10 regional and country offices are prepared to provide us with figures for kilowatt hours of gas or electricity used nor are they able to bill quickly enough after a year-end to provide figures in time for the production of year-end accounts. Furthermore, our current policy is to end our leasehold property occupancies and switch to flexible serviced offices. This will allow us to become more agile in that we can now open smaller offices in a greater number of locations bringing us closer to our customers. However, it is not practical or appropriate for the operators of serviced offices to allocate power usage to their customers on unsupportable bases. This means that we need to use estimates for most offices.

The second table (on page 25) reports data on a full-time equivalent basis (FTE), i.e. the level of consumption per member of staff. However, as we also include emissions incurred by non-members of staff, e.g. Trustees, committee members and certain suppliers, the comparability of some of these numbers, over the years and with other organisations, is difficult to support. Finally, the conversion factors used to calculate the carbon dioxide equivalent of our emissions often vary year on year.

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

#### Key performance indicators by year

	Target	2018–19	2017–18	2016–17	2015–16	2014–15	2013–14
Application processing times (months)							
– urgent applications	3	0.6	1.2	1.0	0.9	0.7	1.3
– non-urgent applications	6	0.7	2.3	4.7	0.9	1.4	2.2
Publicising decisions (working days)							
– post decisions on website	14	14	20	20	20	10	10
Grant payment (number of working days after payment request)							
– Standard grants	15	11	8	2	4	3	5
– LPOW Roof Repair Fund	10	3	4	5	2	n/a	n/a

A change in our system of uploading decisions on our website in 2015–16 meant that we could no longer meet the target set for us in our management agreement with DCMS.

The above indicators and targets will continue into 2019–20 with the obvious exception of the LPOW grant payment target.

## Sustainability reporting

Area	2018–19	2017–18	2016–17	2015–16	2014–15	2013–14
Greenhouse gas emissions – scopes 1, 2 & 3 which incorporates business travel including international air and rail (tonnes CO <sub>2</sub> equivalent)	<b>365</b>	410	417	635	591	489
Estate energy – consumption (mkWh)	<b>1.1</b>	0.9	0.7	1.1	1.1	0.9
– expenditure (£)	<b>476,020</b>	437,986	488,315	488,361	429,425	445,624
Estate waste – amount (tonnes)	<b>23</b>	26	23	28	26	28
– expenditure (£)	<b>24,421</b>	25,908	19,115	13,268	14,095	12,400
Estate water – consumption (m <sup>3</sup> )	<b>3,455</b>	3,927	4,040	4,350	4,889	5,655
– expenditure (£)	<b>5,787</b>	10,703	12,089	7,413	11,825	14,182

## Sustainability reporting normalised by average full time equivalent (FTE) staff employed in the period

Area per FTE	2018–19	2017–18	2016–17	2015–16	2014–15	2013–14
Greenhouse-gas emissions – scopes 1, 2 & 3 which incorporates business travel including international air and rail (tonnes CO <sub>2</sub> equivalent)	<b>1.2</b>	1.4	1.4	2.3	2.3	1.9
Estate energy – consumption (kWh)	<b>3,530</b>	2,899	2,524	4,105	4,134	3,595
– expenditure (£)	<b>1,581</b>	1,470	1,648	1,744	1,639	1,716
Estate waste – amount (tonnes)	<b>0.1</b>	0.1	0.1	0.1	0.1	0.1
– expenditure (£)	<b>5</b>	87	65	47	54	48
Estate water – consumption (m <sup>3</sup> )	<b>11</b>	13	13	16	19	22
– expenditure (£)	<b>19</b>	36	41	26	45	55

### Summary of performance

Our greenhouse gas emissions have fallen slightly in 2018–19 on a gross basis and also when looking at the numbers on an FTE basis.

NHMF has control over only one of the properties that it occupies, which is its headquarters at Holbein Place in London. In 2010–11 we replaced the chillers for the air conditioning and the 25-year-old gas boilers for the heating and installed sensor-controlled lighting that is both movement- and daylight-sensitive. Having undertaken such a major refit there is very little scope for further reducing greenhouse emissions in the one office we control. Specifically we would not consider any significant expenditure for long-term benefits until we had potentially renewed our lease at Holbein Place, which had a review scheduled for the autumn of 2019. As it is, we have given notice and will be moving to significantly smaller premises over the summer of 2019.

In the 10 other properties we occupy we are wholly reliant on the landlord (or provider of serviced offices) to improve performance and that is unlikely to happen between major refurbishments. Our room for further improvement in scopes one and two emissions is therefore extremely limited. Over the years we have relocated some of our regional and country offices into smaller premises or serviced offices, which will have reduced consumption – three such moves happened in 2018–19 and this may be part of the reason for the fall in emissions.

Since May 2011, we have also rented out part of one floor of Holbein Place with the effect of reducing the consumption that we report; although in 2016–17 the space rented out was reduced.

As a part of our business transformation programme, we are instigating changes that should result in further reduced carbon emissions. These include changes to our home-working policies; hot-desking where we have fewer desks than staff allowing us to occupy smaller premises; and moving to a flexible location policy for offices and homeworking staff meaning that staff can live nearer to their customers reducing the necessity of travel.

### 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' invoices. Kilowatt hours are converted to carbon dioxide equivalent tonnes using a conversion factor derived from the tables *UK Government GHG Conversion Factors for Company Reporting*. These tables are available at [www.gov.uk/government/collections/government-conversion-factors-for-company-reporting](http://www.gov.uk/government/collections/government-conversion-factors-for-company-reporting). The most recent factors available were published in June 2018.

Indirect energy emissions relate to electricity generated by other organisations and sold directly

to us as well as heating that we buy from landlords of our country and regional offices. Information about consumption in kilowatt hours is obtained from our landlords where possible, although their methodologies can vary. Kilowatt hours are converted to carbon dioxide equivalent tonnes using the relevant conversion factor. We are heavily reliant on our landlords to improve efficiency.

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 undertaken by staff, Trustees, committee members, expert panellists and suppliers on our Register of Support Services (ROSS) (in effect the monitors and mentors that we appoint to oversee projects that we are co-funding). 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 the relevant parts of the same tables of conversion factors.

### *Waste*

Waste generation has remained stable in 2018–19, but we anticipate that the figure will increase in 2019–20 for two reasons. We will be re-locating our head office, which will inevitably result in the disposal of furniture, equipment and the general build-up of effects over the years as the new office is much smaller and will have far less storage. Secondly, we closed our main offsite storage facility at the end of 2017–18. Thereupon, we started a digitisation process of our records that will allow us to digitise many hard copy records of much of what was created since we started distributing funds from The National Lottery. This project is nearing completion and so the waste will probably be created in 2019–20.

However, we have to be careful about the accuracy of the overall numbers because, as discussed below, there is no reliable measure of the amount of waste we generate, as it is simply taken away by councils, and it would not be an appropriate use of resources to procure weighing equipment simply for the purpose of improving our reporting of this figure. We will continue to seek a practical solution to calculating a reliable figure.

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 and have made assumptions as to where the waste goes in order to produce the figures on page

25. Only the Royal Borough of Kensington & Chelsea invoices us separately, but we also include the cost of securely removing shredded paper into the figures. We strive to reduce the amount of paper that we use and then, inevitably, throw away and our expenditure on photocopying in 2018–19 has fallen significantly as we have encouraged staff to reduce their usage. This was done by reducing the number of printers and requiring staff to log on to the machines to obtain their prints. We also changed supplier and now deal directly with the manufacturer rather than via an agent.

Our country and regional offices are small enough to weigh the waste they generate. There is no reliable way to measure the much greater volume of waste removed by the Royal Borough of Kensington & Chelsea because the council does not tell us the weight of what they remove. We have therefore estimated the amount of waste generated per person based on an estimate of the weight of a standard sack of waste.

### *Use of resources*

Water consumption fell slightly in 2018–19. Where possible we persuade our landlords to provide information about the number of cubic metres of water consumed, which is normally based on the space we occupy rather than by individual metering. In 2015–16 we installed more efficient toilet facilities at our head office. We have also signed a fixed price contract for water supply for our head office. This has resulted in a much-reduced charge, but at the expense of the supplier not providing us with details of actual consumption.

Electricity consumption has increased over the last year as there is an additional spur for powering computer server capacity. We signed contracts to cap gas and electricity costs for our head office for 2018–19 and beyond. However, we have to accept that the weather has a bigger influence over our consumption than any improvements we can make to our energy efficiency.

### **Ros Kerslake OBE**

Chief Executive and Accounting Officer

8 July 2019

## Accountability report

### Corporate governance report

The purpose of this corporate governance report is to explain the composition and organisation of NHMF's governance structures and how they support the achievement of our objectives.

#### The directors' report

Chair and Trustees of NHMF

##### Chair

Sir Peter Luff <sup>2</sup>

##### Trustees

Maria Adebowale-Schwarte <sup>1</sup>  
from 16 May 2018

Baroness Kay Andrews OBE

Anna Carragher

Sir Neil Cossons OBE <sup>1</sup>  
to 31 January 2019

Dr Angela Dean <sup>1</sup>  
to 12 June 2018

Jim Dixon

Dr Claire Feehily <sup>1</sup>

Sarah Flannigan <sup>2</sup>  
from 16 May 2018

Perdita Hunt DL, OBE <sup>2</sup>

Steve Miller <sup>1</sup>

Richard Morris OBE  
to 16 May 2018

René Olivieri <sup>2</sup>

Atul Patel MBE <sup>2</sup>  
to 16 May 2018

Dame Seona Reid DBE

David Stocker  
from 16 May 2018

Dr Tom Tew

##### Chief Executive

Ros Kerslake OBE <sup>2</sup>

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

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

Details of other senior managers can be found in the remuneration and staff report starting on page 38.

The gender split of our staff (including those on fixed term contracts) working on exchequer-related activities and our Trustees at 31 March 2019 on a headcount basis was as follows:

	Male	Female	Total
Trustees	6	7	13
Directors	0	0	0
Staff	0	2	2

While we disclose two staff above, all the directors and staff in the support departments get involved in both our National Lottery distribution and grant-in-aid distribution activities. However, as the overwhelming majority of their time is spent on National Lottery

distribution activities, their statistics are incorporated in those accounts.

#### Register of Trustees' 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 on the website of The National Lottery Heritage Fund – [www.heritagefund.org.uk](http://www.heritagefund.org.uk).

#### Future developments

In 2018 we created a Corporate Strategy, setting out our vision for the future role of NHMF over the three years from 2018 until 2021. We will undertake much of this work using our National Lottery Heritage Fund brand although we anticipate that it will also involve funds from sources other than The National Lottery.

The National Lottery will remain our most significant source of income from 2018–2021, and the focus of most of our activity. The Corporate Strategy reinforces the direction we have been taking for several years, setting out our role as the largest dedicated source of funding for heritage across the UK, and taking further steps towards a stronger leadership position, with a particular focus on opportunities beyond pure grant giving.

Our 2017–18 Tailored Review recommendations support our ambitions to:

- take a stronger leadership position, setting clearer strategic priorities for heritage across the four countries of the UK within a UK-wide framework
- develop commercial, financial, digital and inclusion skills in the heritage sector
- test alternatives to pure grants, such as social investment and other types of repayable finance to increase the sustainability of the sector
- support the sector in working internationally
- fund and champion high quality digital projects
- support the development of the National Lottery brand

These recommendations provide the context for our Corporate Strategy and the Strategic Funding Framework for our National Lottery distribution activities, which was launched in January 2019.

Since 1994, our role in distributing National Lottery money has been to make 'a lasting difference for heritage and people in the UK'. We have developed a position as a heritage leader, through our influence and money, and significant capabilities, expertise and processes supporting grant distribution. In future we want to further recognise the wide-ranging benefits delivered for society through heritage and a broader role for NHMF as an enabler, both in leveraging investment for heritage from others and in developing capacity, skills and resilience in organisations and people.

Our vision is that by 2021, NHMF will be a strong strategic and thought leader for the full breadth of heritage across the UK, demonstrating and championing the impact and benefits to society that heritage achieves and leveraging investment and support from others to strengthen this position. Heritage will be more widely recognised as a vital contributor to GDP, social cohesion, better places and individual wellbeing.

We will deploy National Lottery income as grants, loans or other financial interventions where they will create most long-term value for society. We will maximise impact through recycling income and taking a share of increased income where appropriate, as well as leveraging non-Lottery investment in heritage from others.

We will be a collaborative investor, developing strategic relationships at scale, for example in place-making. We will champion innovation in business models, and build capacity, skills and resilience in organisations in heritage to enable them to diversify their income and attract new investment. We will use our expertise; and access to information, data and research; as an enabling leader and support the heritage world to better measure and demonstrate its social impact.

We will enhance our reputation as a highly efficient and effective administrator of National Lottery and NHMF grants and seek to generate more income for NHMF in order to strengthen our business model and deliver benefits for UK heritage.

We can describe this change as moving from:

- simply distributing money raised by the National Lottery or the tax-payer to make a lasting difference for heritage and people in UK.

To:

- inspiring, leading and resourcing the UK's heritage to create positive and lasting change for people and communities, now and in the future.

Our standard grant-in-aid remains at £5million as it has been for many years despite the levels of inflation in the world's art markets.

We have altered our investment strategy for the endowment fund in order to generate further sums for grant-giving. The Corporate Strategy and the associated organisation re-design are intended to make NHMF more flexible and able to seek opportunities to gather additional funds. Trustees recognise that this will not be easy and we will have to tread carefully to ensure that we remain within the parameters of our founding act (the National Heritage Act 1980) and subsequent directions issued by the Secretary of State. We also wish to avoid complications around our tax-free status under the Income & Corporation Taxes Act 1988.

### 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 distribution activities of Trustees.

### Key stakeholders

The key stakeholder of NHMF is DCMS. We are also mindful of the needs of the heritage sector and the population of the UK when making decisions on applications for funding.

### Personal data

NHMF has had no incidents where personal data was inadvertently disclosed to a third party and as such 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 improvement of its systems.

### Statement of Trustees' and Accounting Officer's responsibilities

Under section 7(3) 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 the Department for Digital, Culture, Media and Sport with the consent of HM 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 government financial reporting manual (FREM) and in particular to:

- observe the accounts' direction issued by the Secretary of State for Digital, Culture, Media and Sport, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis
- 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
- iv) prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Fund will continue in operation

The principal Accounting Officer of DCMS appointed the senior full-time official, the Chief Executive, as 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 section titled 'Accounting Officers' 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.

The Accounting Officer confirms that the annual report and accounts as a whole is fair, balanced and understandable and that she takes personal responsibility for the annual report and accounts and the judgments required for determining that it is fair, balanced and reasonable.

## Governance statement

### Foreword

I have been Chief Executive and Accounting Officer since July 2016.

We have made a number of changes in our governance and internal controls in 2018–19, which are set out here. I have satisfied myself that there were robust and proper transitional arrangements that allowed the system of internal controls to operate effectively through this transition period.

### Introduction

This governance statement is a summary of the arrangements for the stewardship of the NHMF, including how we manage risk and how we comply with the 2017 HMT Corporate Governance in Central Government Departments: Code of Good Practice.

As the Accounting Officer for 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 funds derived from The National Lottery. I am also accountable 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 and The National Lottery Heritage Fund are operated as a single entity as I believe that this is more efficient and effective. Consequently, there is one governance structure and this statement covers the distribution of both grant in aid and National Lottery grants.

### Governance structure

The governance structure of NHMF during 2018–19 is set out in the diagram below.



### Board of Trustees

The Board of Trustees is responsible for:

- giving strategic leadership and direction
- approving control mechanisms to safeguard public resources
- approving grant programme and administration budgets
- supervising the overall management of NHMF activities
- reporting on the stewardship of public funds

The Board operates as a group and held eight meetings during the year to set NHMF policy and make decisions in line with that policy. These meetings are attended by the Executive (Chief Executive and the Executive Directors). All Board meetings held in 2018–19 were quorate. Sir Peter Luff is Chair of the NHMF and throughout the year regular liaison meetings were held between the Chair, the Chief Executive and senior staff.

The Board is normally constituted of around 15 Trustees including the Chair – this is the maximum permitted. In 2018–19 three new Trustees were appointed and two Trustees retired (one of whom was not replaced). These changes were approved by our sponsor department – DCMS and the Prime Minister (as Trustee appointments fall within the remit of the Prime Minister).

The overall attendance rate of Trustees at Board meetings was 100%. Trustees have also delegated some of their tasks to the two committees shown above – these committees oversee the activities of management and provide guidance and support to senior staff. The minutes of committee meetings are standing items at the Board's meetings. The Committee Chairs also provide a full report on

their activities.

Attendance at Board meetings throughout 2018–19 was as follows:

Trustee	Eligible meetings	Meetings attended
Maria Adebowale-Schwarte <i>from 16 May 2018</i>	7	7
Baroness Kay Andrews OBE	8	8
Anna Carragher	8	8
Sir Neil Cossons OBE <i>to 31 January 2019</i>	6	6
Dr Angela Dean <i>to 12 June 2018</i>	3	3
Jim Dixon	8	8
Dr Claire Feehily	8	8
Sarah Flannigan <i>from 16 May 2018</i>	7	7
Perdita Hunt DL, OBE	8	8
Sir Peter Luff	8	8
Steve Miller	8	8
Richard Morris OBE <i>to 16 May 2018</i>	1	1
René Olivieri	8	8
Atul Patel MBE <i>to 16 May 2018</i>	1	1
Dame Seona Reid DBE	8	8
David Stocker <i>from 16 May 2018</i>	7	7
Dr Tom Tew	8	8

#### Board composition

Of the 17 Trustees who attended the Board throughout the year, 47% were female and 53% were male. Two (12%) came from ethnic minorities.

#### Board conflicts of interest

At the beginning of each Board meeting, all Trustees and staff are asked to declare any potential conflict of interests. These are noted in the minutes where the matter is deemed to constitute a conflict and Trustees and staff remove themselves from Board discussions on those matters. Trustees and staff are also responsible for ensuring that entries in the Register of Interests are maintained and updated as necessary.

#### Audit and Risk Committee

The Committee met on four occasions during the year and was quorate at each meeting. It is chaired by a Trustee.

The Chief Executive attended each Committee meeting with the Executive Director: Business Services – other senior staff attended as required. The Committee is supported and serviced by the Fund's Secretariat. The Fund's external auditors (National Audit Office) and internal auditors (BDO) also attend the meeting. The Committee hold

in-camera sessions themselves before meetings and also private discussions with the auditors before the meetings.

In addition to Trustees, non-executive independent members are also members of the Committee – these are David Michael and Carole Murray.

The Committee agreed a multi-year audit strategy with BDO upon their appointment and the reviews carried out in 2018–19 and reported to the Committee were in line with that strategic approach. A detailed one-year plan of internal audit reviews is approved annually.

The Committee received reports on:

- new grant application processes
- key performance indicators
- business transformation programme
- core financial controls
- IT Infrastructure and security
- updated risk assurance mapping

The Committee meeting minutes are shared with the Board. The Committee Chair orally updates the Board on Committee business and decisions.

The Committee also reviews the annual reports and accounts for both NHMF and The National Lottery Heritage Fund. During 2018–19, in addition to the above reports and accounts, the Committee considered the following:

- the arrangements for continuing the new risk management processes at departmental level
- fraud and alleged fraud cases
- procurement arrangements including any exceptions to normal procurement tenders

Attendance at Committee meetings throughout 2018–19 was as follows:

Trustee	Eligible meetings	Meetings attended
Dr Angela Dean <i>Chair, to 12 June 2018</i>	2	1
Dr Claire Feehily <i>Chair, from 1 October 2018</i>	2	2
Maria Adebowale-Schwarte <i>from 1 February 2019</i>	1	1
Sir Neil Cossons OBE <i>to 31 January 2019</i>	3	3
David Michael	4	4
Steve Miller <i>from 1 February 2019</i>	1	1
Carole Murray	4	4

#### Finance, Staffing and Resources Committee

The Committee met on three occasions during the year and was quorate at each meeting. It is chaired

by a Trustee. The Committee also met on a fourth occasion sitting as the Remuneration Committee to agree performance bonuses for senior staff.

The Chief Executive attended each Committee meeting as a member. The Executive Director: Business Services, and Executive Director: Business Delivery attend meetings, and other senior staff attend as required. The Committee is supported and serviced by the Secretariat.

The Committee has oversight on staffing and recruitment controls exercised by senior managers. The Committee also reviewed and approved during the year:

- management accounts and financial management information (including efficiency targets)
- performance data against operational and service standards
- other performance management data
- staffing levels and personnel data such as sickness absence, training and development spending
- IT investment propositions
- functional strategies for IT, Estates, HR and Finance

The Committee approved the proposed budgets for grant programmes and administration for submission to the Board. The Committee also recommended the 2018–19 Business Plan.

The Committee meeting minutes are shared with the Board. The Committee Chair orally updates the Board on Committee business and decisions.

In 2018–19 the Trustees appointed Steve Blake as a Non-Executive member of the Committee.

Attendance at Committee meetings throughout 2018–19 was as follows:

Trustee	Eligible meetings	Meetings attended
Rene Olivieri <i>Chair, from 25 June 2018</i>	2	2
Steve Blake	3	3
Sarah Flannigan <i>from 1 October 2018</i>	2	2
Perdita Hunt DL, OBE	3	3
Ros Kerslake OBE	3	3
Sir Peter Luff	3	3

#### Delegated grant decision making

In 2018–19 the Board delegated some decision making for grants to a subset of Trustees acting as Board panels. These covered decisions for the following grant programme:

- Parks for People (in England this was a joint panel with The National Lottery Community Fund)

The Trustees have delegated their grant decision making responsibilities for certain types and values of National Lottery awards to country and English regional committees. There are 12 of these committees and each contains a Trustee. In addition to making grant decisions, these committees provide advice to the Board on priorities within their area and act as advocates for the organisation's work as a National Lottery distribution body. Chairs of country and regional committees meet with the Board Chair and the Chief Executive, along with senior staff, twice a year.

New members of these committees have a formal induction with the Chief Executive and senior staff throughout the year depending on the recruitment and appointment cycle. In 2018–19 we undertook formal induction sessions for several new members.

Trustees have also delegated grant decision-making for grants under £100,000 to staff, specifically directors of Business Delivery in countries and English regions. An annual report on the impact of delegated grants across all committees is presented to the Board. All decisions made by committees and staff are reported to the Board.

#### National Lottery income

We have continued to work with the Gambling Commission, DCMS and Camelot (The National Lottery operator) to understand the data behind The National Lottery income projections and to assess the risks and opportunities from this work.

Following the strategic review by Camelot of their plans and operations in autumn 2017, we continue to work with them and other partners on the practical implementation of their plans where this overlaps in our area, for example, in the promotion of The One National Lottery initiative.

We took steps to reduce the Fund's financial exposure from our potential commitments and, although these have been difficult in terms of decision making from a heritage perspective, these actions have brought down the exposure level and our key financial indicators have moved and continue to move in the right direction.

Pleasingly, the actual and projected levels of income have stabilised and we have more confidence in their delivery over the next few years. We have prudently factored in some risk in those projections to manage a down-side position if that were to develop.

#### Executive and Senior Leadership Team

The Board delegates day-to-day management to the Chief Executive. Previously, the Chief Executive was supported by a Heads of Department Group and a Senior Leadership Team consisting of all Directors and Deputy Directors.

The Executive (the Chief Executive and the Executive Directors) are now responsible for wider strategic management issues and they also act as the Programme Board for the business transformation programme (see page 33). The Executive meets weekly.

The Senior Leadership Team (the Chief Executive, Directors and Deputy Directors) were responsible for the day-to-day operations of the Fund as well as preparations for our next Strategic Funding Framework. The Senior Leadership Team met weekly.

Each departmental director provides a monthly report to the Board on activities and issues within their remit. The Chief Executive also held regular meetings with the Leadership Team consisting of senior and middle managers and ensured Board decisions and directions were communicated directly to key staff. These meetings included verbal reports on activities across all departments as well as discussion of thematic issues affecting all teams e.g. risk management and business planning.

From April 2019 this governance structure changed to reflect the Fund's new organisational design and structure (see below). These arrangements are as follows:

- Executive (to retain the membership as is) and have oversight of the Corporate Strategy and strategic direction of the Fund
- A Strategy and Performance Group (consisting of senior managers in the direct line management of Executive Directors) to oversee operational performance against KPIs, targets etc.

### Organisational design and structure

During the year the Chief Executive operated a four-department structure of:

- Operations
- Strategy and Business Development
- Communications
- Finance and Corporate Services

The Secretariat team reports directly into the Chief Executive.

The annual operating plan – the Business Plan – is developed each year alongside financial budgets and grant programme planning. Like previous years, this year we also integrated risk management into the business planning process closely. The Business Plan is discussed with our sponsor department DCMS.

DCMS also set policy directions and financial directions with which we have complied in our National Lottery activities. The Scottish and Welsh governments have also issued some policy directions with regard to National Lottery activities in those

countries and we have also complied with those.

We operate in line with a Management Agreement and Financial Memorandum between ourselves and DCMS. This is supplemented by regular meetings with DCMS officials and other National Lottery distributors.

During 2018–19 as part of the business transformation programme we carried out an extensive consultation and design process to establish a new design for the Fund. This was subject to staff consultation during the summer and autumn of 2018. We then consulted with our recognised trade unions over the winter and began a transition to the new structure in January 2019. This was completed by the end of March 2019.

The new structure will focus on delivering our ambition of “inspiring, leading and resourcing the UK’s heritage”. The departmental structure from 1 April 2019 is:

- Business Innovation and Insight – focused on leading and driving the context, insight and direction of our ambition
- Business Delivery – focused on delivering our ambition via strategic partnerships, engagement and investment across the UK at local level
- Business Services – focused on enabling, partnering and supporting our ambition

Business Delivery will continue its delivery model across the whole of the UK including three new English areas amalgamated from our existing English regions covering the North, Midlands & East and London & South. Northern Ireland, Wales and Scotland continue to have their own country teams.

An extensive staff assimilation, recruitment and assessment process has been taking place to ensure we have the right leadership talent in place across the Fund and align our other staff talent to deliver the ambition in their various functions and teams across the UK.

We have continued to deliver our core functions and responsibilities throughout 2018–19 in addition to these significant changes in our design and structure. We will continue in the first half of 2019–20 to embed the design through work on changing our culture, creating new functions like marketing etc.

All the changes we have brought in are aligned to and supportive of the recommendations on the 2017 Tailored Review undertaken by DCMS.

### Corporate Strategy

We recognised in 2017 that in addition to the successful strategic plans/frameworks we have, historically, had in place for National Lottery grant giving; we also needed a wider, organisational Corporate Strategy for the direction of the

organisation and to help us plan and respond to future challenges, risks and opportunities.

In 2018 we launched our Corporate Strategy which provided an 'overarching umbrella' for our activity at a high level. It is supported by a range of other corporate responses which provide more detail in specific operational, strategic and policy areas, including:

- the launch of our new Strategic Funding Framework in January 2019
- our business plans
- our implementation plan for Tailored Review recommendations
- business transformation programme
- business strategies for individual functional areas, e.g. our digital strategy

The National Lottery will remain our most significant source of income for the next few years, and the focus of most of our activity.

The Corporate Strategy reinforces the direction we've been taking for several years, setting out our role as the largest source of funding for heritage across the UK, and taking further steps towards a stronger leadership position, with a particular focus on the opportunities beyond pure grant giving. The goal is to drive change and increase our impact across the UK's heritage, by strengthening our leadership role and standing up for the benefits that heritage can deliver to society.

We will work through due diligence and viability processes to explore the options to expand NHMF's activities in support of the sectors it works with.

#### **Strategic Funding Framework**

In January 2019 we launched our new Strategic Funding Framework. This framework running from 2019 to 2024 represents a major devolution of decision-making across the whole of the UK as part of our proposals to distribute more than £1 billion of National Lottery money to the UK's heritage.

Decisions on around 80% of all funding by The National Lottery Heritage Fund will be made in Scotland, Northern Ireland, Wales and the three new English areas.

Our new approach includes:

- a major focus on nature, communities, and on ensuring everyone is able to enjoy heritage – three top priorities for people who responded to the consultation
- new models of investment, moving beyond grants to include loans and partnerships,

designed to attract others to invest money alongside The National Lottery

- more support for commercial, sustainable approaches to tackling heritage that's in danger of being lost
- investment and support to help heritage organisations to be more financially sustainable
- a requirement for every heritage project that receives funding to be environmentally friendly
- simpler, streamlined and more efficient funding
- greater engagement and support to help 13 deprived communities that have in the past been less successful securing funding
- continued support for large-scale, iconic projects over £5million

Our investment portfolio is simpler and easier to access and includes:

- National Lottery Grants for Heritage – an open programme for any type of heritage project from £3,000–£5million
- heritage funding campaigns designed to fulfil strategic needs or funding gaps. The first two campaigns will launch in 2019, focusing on helping:
  - organisations build their capacity and organisational resilience
  - to build digital capabilities
- joint funds to deliver strategic initiatives in partnership with other organisations, such as the Future Parks Accelerator partnership with the National Trust
- social investments such as impact funds and loans
- two rounds of major grants of over £5million in 2020–21 and 2022–23

This overall approach and portfolio reflects the extensive consultation exercise we undertook in 2017–18 with National Lottery players and key stakeholders across the heritage sectors.

#### **Business transformation programme**

Like all organisations, including successful ones, we recognise we need to adapt and change how we work to the changing environment that we work within. In addition, to deliver our Corporate Strategy we will need to change the way we work.

That environment has changed politically, for example, the departure of the UK from the European Union, the continuing devolutionary arrangements across the UK, the impacts of austerity and reduced public sector spending are just a few headlines. The

Corporate Strategy points us in other directions as well as our core business.

The Tailored Review in 2017 endorsed that direction of travel, the actions taken to date and tasked us to go further.

We therefore set up a business transformation programme to change the way we work and how we undertake that work. 2017–18 saw preliminary planning and preparation for this work and 2018–19 has seen the first year of delivery and implementation. We expect this to take place over another two years before it is fully completed.

The programme's goals are to deliver and support:

- the new three-year Corporate Strategy which started in March 2018
- a simpler, more customer-focused National Lottery Strategic Funding Framework
- a radically improved investment management process and system in 2020
- IT transformation that supports operational efficiency and customer satisfaction
- the corporate infrastructure (skills, structure, support services) to support our strategic direction
- more agile ways of working and a stronger, more positive culture

We have realigned the work of the programme into three main work streams. These are:

1. Shaping our Business  
(our organisational design, culture, skills, people and governance)
2. Locating our Business  
(our estate and working environment)
3. Delivering our Business  
(our IT, digital transformation)

In 2018–19 we delivered:

- a feasibility review of diversifying income sources and leveraging greater investment into the heritage sector
- our new Strategic Funding Framework including public consultation, portfolio design, new process and guidance
- our new brand identity as The National Lottery Heritage Fund (replacing the Heritage Lottery Fund)
- changes to our website, online portal, forms and processes for the new funding framework
- the start of our digital strategy including completing mobilisation of IT for all staff,

the beginning of Office 365 installation, integration of telephony, digitisation of hard copy records, and development of a proof of concept approach for a new investment management system and portal

- our new organisational design
- five office moves from leased arrangements to modern serviced offices
- an agreement to move the London office to new offices in St Katharine Docks
- the creation of a new digital team to explore customer insight, understanding and design of our digital services

### **Risk management and internal control**

Our system of risk management and internal control is designed to manage risk to an acceptable level rather than eliminate risk to policies, aims and objectives – it can therefore only provide reasonable and not absolute assurance. In particular, I am clear that risk management should not stifle innovation or business change where this is needed. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of policies, aims and objectives and to evaluate the likelihood of those risks being realised and the impact if that realisation occurred.

All policy setting and grant decision making is informed by the risk management culture and approach of the NHMF. A few years ago we overhauled our risk management approach as part of a wider exercise on assurance across NHMF. We have continued to operate this approach in 2018–19.

The risk registers and underpinning process assign a risk owner who is accountable to the Chief Executive for the effective management of that risk. The registers also identify associated risks so that any 'multiplier effect' is taken account of. It also distinguishes between the 'inherent' level of risk (impact and probability) and the 'residual' level of risk so that it is possible to judge the effectiveness of existing controls and mechanism for mitigating the risk. That also permits the risk owner to identify further measures needed to bring the risk within the appetite and the specific dates for those actions.

The Board also reviewed its risk appetite for 2018–19 and continued to reflect greater appetite for business change and transformation. The Board also recognised the risks and challenges facing NHMF in 2018–19 especially in its National Lottery distribution role – these are expected to evolve from the principal risks for 2018–19 as set out below. Effective risk management in the year ahead will be particularly important.

We also recognise that well-thought-through risk taking and innovation to achieve NHMF objectives should be encouraged. I believe that the Fund demonstrates innovation in its choice of grant awards and does not simply resort to making risk-free decisions. In a time of reducing National Lottery funds this will be even more important to ensure that The National Lottery Heritage Fund reaches as widely into the community as possible.

To this end we are prepared to accept that some of the organisations that we give grants to will not subsequently demonstrate full competence in the administration of that grant. We learn our lessons, improve our processes and in rare circumstances write off the grant. In cases where we suspect fraud or improper behaviour we will report the case to the police for further investigation. I approve all write-offs and this allows me to monitor the amount each year to provide assurance on our assessment and monitoring procedures.

As can be seen from the relevant note to the accounts, the level of grant write-off is extremely small relative to the level of grants that 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 on applicants. Consequently, I am able to conclude that there is no cause for concern about the level of risk implicit in our grant giving processes.

In 2018–19, NHMF considered the following to be the most significant areas of risk:

- National Lottery income variability
- Corporate Strategy diversification is not successful
- Tailored Review recommendations were not successfully implemented
- adverse reaction to change and business transformation
- Strategic Funding Framework was not successfully implemented

Each of these risks has a risk owner at the Executive level charged with managing the risk and ensuring appropriate mitigation actions are undertaken. I believe we have effectively managed those risks throughout 2018–19.

#### **Approach to fraud and information risk**

NHMF has a fraud policy that is reviewed on an annual basis. All staff in NHMF undertook bespoke fraud awareness training within the last two years, delivered by a specialist assurance team from BDO supported by the NHMF Finance Team. This focused on fraud risk in:

- grant giving

- procurements/contract management
- general fraud areas

The training also identified fraud risk areas for NHMF, how those might be identified and combatted to reduce the risk of fraud. We reinforced this with online training in 2016–17.

Over recent years we improved risk awareness and intelligence gathering arrangements with other National Lottery distributors and we continued this last year with better sharing of information, combined resources and consideration of the use of specialist third parties to identify fraud risk. We continue to report all potential cases of fraud to the police and actively contact them in such cases to ensure effective investigation.

Towards the end of the year we undertook significant work to refresh our work in this area and to align to the Government Functional Standard on Fraud (GovS013: Counter Fraud). We have improved guidance and policy in areas such as:

- fraud, bribery and corruption policy and response plan
- counter fraud strategy
- fraud risk assessment
- our annual action plan

We expect to see further embedding of this in 2019–20.

NHMF also has an information risk policy which is compliant with Cabinet Office guidance and the Security Policy Framework. All new staff receive guidance in information security, data protection and Freedom of Information as part their induction. We undertook extensive planning and preparations for the new General Data Protection Regulation (GDPR) provisions brought in last summer and have satisfactorily met the obligations of GDPR.

In December 2018 we achieved Cyber Security Plus accreditation.

We also comply with the government guidance on transparency of spend, contracts etc. In 2018–19 we continued to improve procurement controls and processes

#### **Business critical models**

I consider we are compliant with the recommendations contained within the Macpherson Report. I judge that we utilise one business critical model – the cash flow forecast used for setting annual grant budgets out of our National Lottery income. We aim to ensure that we award the highest amount possible in terms of the level of grants without the risk of running out of cash or over extending ourselves.

The model was created around 10 years ago and remains largely in its original form other than extending its lifecycle. The model has been employed against scenarios of different levels of National Lottery income, one-off contributions to the Olympics, and significant new grant programmes and we have found that it provides a reasonable forecast of our financial sustainability.

In 2014–15, based on the model, the Board created a Financial Framework setting out grant ratios linked to the total level of commitments, approved actual liabilities, income from The National Lottery and our balance at the National Lottery Distribution Fund (NLDF). We therefore believe that the model and the Financial Framework provide a robust basis for our grant giving. We have continued to use this approach in 2018–19 and used this in modelling for our National Lottery income planning scenarios and assumptions. We reviewed the key ratios in February 2018, agreed to maintain the ratios as they are with the exception of the target of cash holding which was modified to reflect a wider range and sufficient levels of reserves to reflect the level of commitments.

### **Board performance and effectiveness**

The most significant activity for the Board has been oversight of the continuing roll out of the Strategic Funding Framework and our business transformation programme alongside their grant giving work.

Nothing of concern emerged from any of the Committees supporting the Board. Report findings from both the internal and external auditors were satisfactory during the year.

The Board membership changed in 2018–19, although not as much as in the past years; this has meant some reduction in the degree of churn amongst the Trustees. We have secured a more diverse set of skills across the Board with knowledge on digital, change management, commercial expertise and governance skills too.

The Board are satisfied that they continue to meet the requirements of 2017 HMT Corporate Governance in Central Government Departments: Code of Good Practice.

There were no matters from the auditors put to the Audit and Risk Committee on behalf of the Board that gave it cause for any concern. In consequence the Board believe that it can rely on the information and assurance provided by management for its decision making.

All newly appointed Trustees receive induction at the time of their appointment which sets out their obligations and duties as a Trustee, the work of NHMF and its systems/processes thereby helping them make a full contribution to the workings of the

Board. This formal induction programme is continued through the ongoing programme of events and other training opportunities for Trustees. The effectiveness of Trustees is appraised by the Chair on a regular basis. The Chair's performance is also overseen by the Senior Independent Trustee (the Chair of the Finance, Staffing and Resources Committee).

### **Governance review**

The Board decided in early 2019 that given the changes in the Fund it was sensible to commission a more formal review of the Fund's governance. This will cover the following areas in relation to how the Board and Committees of the Fund:

- “inspire, lead and resource” heritage across all four countries of the UK
- inform the policies of the organisation
- guarantee the integrity of its decision making
- exercise strategic sector and both national and local leadership
- communicate its work and vision
- provide expertise to support its work
- ensure its work benefits diverse audiences across the United Kingdom
- support its Executive staff
- build support for its activities across stakeholders in government, the devolved administrations and the broadly defined heritage sector
- maintain the confidence of National Lottery players
- reflect best practice and compare with other models of UK wide organisations within the cultural/public sector

In April we appointed Campbell Tickell to undertake this work. We expect that their report will be received in the summer and be considered by the Board in September 2019.

### **The governance year**

As Accounting Officer I have responsibility for reviewing the effectiveness of the systems of internal control. My review is informed by the work of the internal auditors (BDO) and senior management within the NHMF who have responsibility for ensuring the effective maintenance and implementation of the internal control framework alongside comments made by the external auditors in their management letter and other reports.

In the latter part of the year Moore Stephens merged with BDO and following a competitive tender were re-appointed for a term of three years as internal auditors. This process was jointly procured with Sport England and UK Sport. As well as driving



better value for The National Lottery player I believe this will also bring out best practice across different National Lottery distributors that will be of benefit to us all.

All senior staff have performance agreements set at the beginning of the year articulating their personal and corporate objectives for the year. These are linked to the Business Plan and our strategy. These are reviewed formally at mid-year and end-year reviews. I also hold informal meetings with Executive Directors on a one-to-one basis throughout the year. As mentioned, the Executive and Senior Leadership Teams met regularly.

I have seen the Management Letter prepared by the external auditors following their audit of the financial statements for the year ended 31 March 2019.

As a result of their programme of work the internal auditors have produced an opinion and annual certificate of assurance with regard to the adequacy of the systems and the operation of internal controls within NHMF. This opinion certifies that there is an adequate and effective system of governance, risk management and internal control to address the risk that management's objectives are not fully achieved.

The internal auditor's year end report also reported another improvement in the 'direction of travel' assessment of assurance.

The internal auditors upon appointment produced an overall audit strategy. Last year covered the third year of this period and all intended reviews were undertaken and completed on time. The annual plan is extracted from the audit strategy and linked into the risk register and risk appetite.

With BDO we introduced new quarterly liaison meetings with the internal auditors to help monitor progress against plan and redirect resources to emerging risks. These have continued to be used to monitor progress and delivery of the programme. We also introduced new controls in 2014–15 to improve accountabilities on audit reviews and the implementation of internal audit recommendations. These have continued in 2018–19 and recommendations that were due to be implemented in 2018–19 have been on the whole implemented satisfactorily.

All reports of the internal auditors are discussed by the Audit and Risk Committee with senior members of staff in attendance, including those whose departments were reported upon – this gives me and the Committee the opportunity to discuss in detail the findings, recommendations and proposed management actions. Where recommendations for improvements or correction were accepted, directors also had to provide an implementation response and timetable for each

recommendation. The implementation of these recommendations are tracked and monitored by the Business Services Department and the internal auditors. That control list is also seen as a standing item by the Audit and Risk Committee.

2018 saw a new Code of Conduct introduced for all staff and contractors in the Fund, following a recommendation of the Tailored Review. This included areas such as:

- the principles of service in public life
- conflicts of interest
- gifts and hospitality
- whistleblowing

The Code was publicised to all staff and placed on our intranet.

I also require all senior managers to sign annual memoranda of representation to me, detailing their responsibilities and confirming they have carried out these responsibilities in 2018–19. All senior managers have signed the memorandum and they are aware that I have placed reliance on those assertions in this statement.

From April 2015 Letters of Delegated Authorities for all Executive Directors were introduced – setting out their delegated authorities (financial, procurement etc.) to be agreed at the start of the year to complement the memorandum at the year end. This cycle has been completed in 2018–19.

As a result of the above I believe that the Fund's control 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 processes 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 National Lottery grants are not adequate.

**Ros Kerslake OBE**  
Chief Executive and Accounting Officer

8 July 2019

Remuneration and staff report

**Remuneration of the Chair and Trustees**

All Trustees were entitled to receive an annual salary for time spent on the activities of NHMF.

In addition NHMF reimbursed travel expenses of certain Trustees when travelling from their homes to their office of employment in London, Edinburgh, Cardiff or Belfast. NHMF also provided Trustees and members of regional and country committees with meals when they were holding meetings at their places of employment. The Fund met the tax liability on all of these expenses.

The remuneration of Trustees, including reimbursement of taxable expenses and the tax thereon, falls into the bands in the table on the right. All Trustees are appointed by the Prime Minister. They have three-year appointments, which are potentially renewable for a second term. They are not members of the pension schemes used by NHMF. No contributions were made by the Fund to a pension scheme on the Trustees' behalf.

Trustees' remuneration was allocated between NHMF and its National Lottery distribution activities on the basis of 1%:99%. The total remuneration of Trustees in 2018–19 was £210,289 (2017–18: £191,969). 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.

Bonuses payable to senior management are disclosed separately. This is in line with Employer Pensions Notice 359 issued by the Cabinet Office in April 2013.

**Cash equivalent transfer values (CETV)**

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 that 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 in accordance

**Remuneration of the Chair and Trustees (audited information)**

	2018–19 £'000	2017–18 £'000
Sir Peter Luff <i>Chair</i>	45–50	40–45
Maria Adebowale-Schwarte <i>from 16 May 2018</i>	5–10	n/a
Baroness Kay Andrews OBE	20–25	20–25
Anna Carragher	20–25	20–25
Sir Neil Cossons OBE <i>to 31 January 2019</i>	5–10	10–15
Sandie Dawe CBE <i>to 14 August 2017</i>	n/a	0–5
Dr Angela Dean <i>to 12 June 2018</i>	0–5	5–10
Jim Dixon	5–10	5–10
Dr Claire Feehily <i>from 1 March 2018</i>	10–15	0–5
Sarah Flannigan <i>from 16 May 2018</i>	5–10	n/a
Perdita Hunt DL, OBE	5–10	5–10
Steve Miller	5–10	5–10
Richard Morris OBE <i>to 16 May 2018</i>	0–5	5–10
René Olivieri <i>from 1 March 2018</i>	10–15	0–5
Atul Patel MBE <i>to 16 May 2018</i>	0–5	10–15
Dame Seona Reid DBE	20–25	20–25
David Stocker <i>from 16 May 2018</i>	5–10	n/a
Dr Tom Tew	10–15	10–15

with the Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from lifetime allowance tax that 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, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

With the exception of Helen Coley-Smith and Carli Harper-Penman, all senior staff roles had permanent contracts of employment. With the exception of Carli Harper-Penman, all senior employees were ordinary members of the Principal Civil Service Pension Scheme (PCSPS) or Alpha. Their costs were allocated between The National Lottery Heritage Fund and NHMF on the basis of 99%:1% (2017–18 – 99%:1%). The Director of Business Transformation, Helen Coley-Smith, was appointed to a fixed term

## Remuneration of employees (audited information)

The remuneration of Executive Directors is set out in the two tables below. The acting Executive Director of Business Innovation and Insight, Carli Harper-Penman, is employed via an agency that supplies temporary staff. Therefore, her details are not disclosed in the table below:

	Salary 2018–19 £'000	Salary 2017–18 £'000	Bonus 2018–19 £'000	Bonus 2017–18 £'000	Pension benefits accrued during 2018–19 £'000	Pension benefits accrued during 2017–18 £'000	Total 2018–19 £'000	Total 2017–18 £'000
<b>Ros Kerslake OBE</b> Chief Executive and Accounting Officer	135–140	135–140	5–10	5–10	53	53	195–200	195–200
<b>Eilish McGuinness</b> Executive Director: Business Delivery	85–90	80–85	5–10	5–10	12	9	100–105	95–100
<b>Judith Cligman</b> Director of Strategy and Business Development to 31 January 2019	80–85*	95–100	0	0–5	7	4	85–90	105–110
<b>Colin Bailey</b> Executive Director: Business Services	100–105	100–105	5–10	5–10	41	31	150–155	135–140
<b>Louise Lane</b> Director of Communications to 31 January 2019	70–75*	80–85	0	0–5	40	6	110–115	90–95
<b>Helen Coley-Smith</b> Director of Business Transformation from 20 April 2017 to 31 August 2018	45–50*	100–105*	0	0–5	18	41	60–65	145–150

	Real increase in pension and lump sum £'000	Total accrued pension at age 60 and lump sum £'000	Cash Equivalent Transfer Value (CETV) at 31/03/19 £'000	CETV at 31/03/18# £'000	Real increase in CETV funded by NHMF £'000
<b>Ros Kerslake OBE</b> Chief Executive and Accounting Officer	2.5–5	5–10	146	87	42
<b>Eilish McGuinness</b> Executive Director: Business Delivery	0–2.5 and 0–2.5 lump sum	30–35 plus 90–95 lump sum	685	603	11
<b>Judith Cligman</b> Director of Strategy and Business Development to 31 January 2019	0–2.5 and 0–2.5 lump sum	40–45 plus 125–130 lump sum	1,000	907	8
<b>Colin Bailey</b> Executive Director: Business Services	0–2.5	5–10	159	113	24
<b>Louise Lane</b> Director of Communications to 31 January 2019	0–2.5 and 5–7.5 lump sum	20–25 plus 70–75 lump sum	551	484	40
<b>Helen Coley-Smith</b> Director of Business Transformation from 20 April 2017 to 31 August 2018	0–2.5	0–5	41	29	9

\* The full year equivalent of Helen Coley-Smith's salary in 2017–18 and 2018–19 was in the band £110,000 to £115,000. The full-year equivalent of Judith Cligman's salary in 2018–19 was in the band £95,000 to £100,000. The full-year equivalent of Louise Lane's salary in 2018–19 was in the band £85,000 to £90,000.

# or at date of appointment if later. Some comparatives have been changed by the Cabinet Office following a retrospective update to an individual's service history.

Bonuses payable to senior management are disclosed separately on an accrued basis. This is in line with Employer Pensions Notice 359 issued by the Cabinet Office in April 2013.

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus, 65 for members of nuvos and the higher of 65 or state pension age for members of alpha. The pension figures quoted for directors show pension earned in PCSPS or alpha as appropriate. Where the director has benefits in both PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes, but note that part of that pension may be payable from different ages.

Contract in 2017, which was reflective of the time-bound nature of her role. This contract ended during 2018–19. In December 2018 Carli Harper-Penman was engaged as Interim Executive Director of Business Innovation and Insight. She is not an employee of the Fund but her services were procured through an agency. In engaging her the Fund satisfied itself that it was in compliance with Public Procurement Note (PPN) 8/15 Tax Arrangements of Public Employees. The arrangements followed Section 7 of that PPN and the Fund was also satisfied on the IR35 compliance arrangements before the engagement commenced. The rate paid to the agency was £826 per day giving an annualised sum of £176,764.

With the exception of Carli Harper-Penman, the remuneration of senior managers is performance-related, assessed against individual objectives and overall contribution to corporate goals. Performance and remuneration is reviewed annually by the Finance, Staffing and Resources Committee and rated on a scale of four levels of achievement.

#### Remuneration ratio (audited information)

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

The annualised banded remuneration of the highest paid Executive Director in both 2018–19 and 2017–18 was £140,000 to £145,000 including bonus. This was about 4.9 times (2017–18: 5.0 times) the median remuneration of the workforce, which was £29,043 (2017–18: £28,537). There were no employees who received remuneration in excess of the highest paid Executive Director. Remuneration ranged from £15,000 to £140,000 (2017–18 £15,000 to £140,000). The highest paid Executive Director was subject to the government's pay remit. This restricted the sum available to fund staff pay rises to 1.5% of the payroll.

From 2019–20, we are also required to disclose the ratio of the Chief Executive's total remuneration as compared to the 25th, 50th and 75th percentile full time equivalent of staff pay. This information is disclosed below.

	Ratio
25th percentile	5.9
50th percentile	4.9
75th percentile	3.9

As mentioned earlier Carli Harper-Penman was engaged as the interim Director of Business Innovation and Insight from December 2018 via an employment agency. Using the equivalent annualised sums paid to the agency the ratios would be:

	Ratio
25th percentile	1:7.2
50th percentile	1:6.1
75th percentile	1:4.8

#### Exit packages (audited information)

As required by the Cabinet Office, the Fund 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, and ex-gratia payments.

During 2018–19 the Fund proactively managed organisational change to minimise potential redundancies but a small number of staff requested and obtained approval for voluntary exit. All voluntary exits were authorised by the Fund's Executive and the Cabinet Office. Payment details are shown below – the levels of which are determined by the terms Civil Service Compensation Scheme not by the Fund. The sums quoted include compensation in lieu of notice.

There were seven in 2018–19 (2017–18: one) in the following bands:

	2018–19 Number	2017–18 Number
£5,000–£9,999	1	0
£35,000–£39,999	1*	0
£40,000–£44,999	1	0
£45,000–£49,999	0	1
£50,000–£54,999	1*	0
£55,000–£59,999	1*	0
£75,000–£79,999	1*	0
£90,000–£94,999	1	0
<b>Total</b>	<b>7</b>	<b>1</b>

\* includes compensation in lieu of notice.

99% of the cost of these exit packages were charged to our National Lottery distribution activities.

#### Staff costs and numbers (audited information)

	2018–19 £'000	2017–18 £'000
Salaries	78	127
Employer's NI payments	7	11
Payments to pension schemes	14	25
Temporary staff costs	6	3
	<b>105</b>	<b>166</b>

Additional costs of £13,868,000 have been allocated to National Lottery distribution activities and are reflected in those accounts.

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

	2018-19 Number	2017-18 Number
Grant applications	2	4
Finance and corporate services	0	0
Strategy and business development	0	0
Communications	0	0
	2	4

The above figures are disclosed as full-time equivalents and include an average of no staff on a fixed term contract. Additionally an average of 259 permanent staff and 40 on fixed term contracts were employed on Lottery distribution activities.

## Pensions

Pension benefits are provided through civil service pension arrangements. From April 2015 a new pension scheme for civil servants was introduced – the Civil Servants and Others Pension Scheme or alpha, which provides benefits on a career average basis with a normal pension age equal to the member's state pension age (or 65 if higher). From that date all newly appointed civil servants and the majority of those already in service joined alpha. Prior to that date, civil servants participated in PCSPS, which has four sections: three providing benefits on a final salary basis (classic, premium and classic plus) with a normal pension age of 60; and one providing benefits on a whole career basis (nuvos) with a normal pension age of 65.

These statutory arrangements are unfunded with the cost of benefits met by monies voted by parliament each year. Pensions payable under classic, premium, classic plus, nuvos and alpha are increased annually in line with legislation for pension increases. Existing members of PCSPS who were within 10 years of their normal pension age on 1 April 2012 remained in PCSPS after 1 April 2015. Those who were between 10 years from their normal pension age and 13 years and 5 months from their normal pension age on 1 April 2012 will switch into alpha between 1 June 2015 and 1 February 2022. All members who switch to alpha have their PCSPS benefits banked, with those who have earlier benefits in one of the final salary sections of PCSPS having those benefits based on their final salary when they leave alpha. Members who joined from October 2002 may opt for either the appropriate defined benefit arrangement or a money purchase stakeholder pension with an employer contribution (a partnership pension account).

Employee contributions are salary-related and range between 4.6% and 8.05% of pensionable earnings for members of classic, premium, classic plus, nuvos and alpha. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition a lump sum equivalent to three

years of initial 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. Classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as per premium. In nuvos a member builds up a pension based on their pensionable earnings during their 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. Benefits in alpha build up in a similar way to nuvos except that the accrual rate is 2.32%. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The partnership pension account is a stakeholder pension arrangement. Employer's contributions of £23 (2017-18: £914) were paid to a panel of appointed stakeholder pension providers. NHMF makes a basic contribution of between 8% and 14.75% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of 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 0.5% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

There are currently no members of staff working on NHMF business with a partnership pension account.

One member of staff retired early on health grounds during 2018-19.

Further details about civil service pension arrangements can be found at the website [www.civilservicepensionscheme.org.uk](http://www.civilservicepensionscheme.org.uk).

Although the schemes are defined benefit schemes, liability for payment of future benefits is a charge to PCSPS or alpha. Departments, agencies and other bodies covered by PCSPS and alpha meet the cost of pension cover provided for the staff they employ by payment of charges calculated on an accruing basis. For 2018-19, employer's contributions of £14,278 (2017-18: £24,193) were paid to PCSPS and alpha at the rates set out as follows:

Salary in 2018-19	% in 2018-19
£23,000 and under	20.0%
£23,001-£45,500	20.9%
£45,501-£77,000	22.1%
£77,001 and above	24.5%

### Absence management

Staff absence in 2018–19 remained lower than comparable national benchmarks, with overall levels running at approximately 1.9%, slightly higher than 2017–18 levels (see absence levels chart, page 43).

2018–19 saw significant organisational change in the Fund and we proactively continued to provide and promote wellbeing support for staff, including a major relaunch of our employee assistance programme, personal coaching support, online training in mental health and stress management and change management support.

In January 2019 the Fund introduced a new HR management information system which includes new functions for online recording of absences, together with improved management reports. These functions will help managers better understand and manage staff absence.

### Employee engagement and consultation

We continue to regularly inform and engage our staff in discussion on our strategic direction and operational performance. This year we have undertaken extensive consultation with staff to help us determine the goals of Shaping our Future Business, our organisational design review. Over one third of staff engaged in focus groups, surveys and interviews. We also opened up online question and answers forums and over 300 questions were received, reflecting the level of staff engagement in discussions. Extensive, formal consultation was conducted with our Trade Unions and staff views were actively sought and listened to. We also extensively consulted with staff as part of the launch of our new Strategic Funding Framework, both pre-design and pre-implementation.

All staff receive daily news digests, weekly newsletters updating them with news across the Fund and we have active, popular social media discussion groups. We held several 'town hall' events with all staff in 2018–19. We also frequently convened our Leadership Team, gathering our managers from across our regions and corporate services for discussion and consultation. In November 2018 we launched a major new staff intranet, radically transforming how staff are able to locate and access news, policies, forms and information.

The Fund also meets every quarter with its Trade Union partners (FDA and PCS). Significant additional consultation took place in 2018–19 regarding the Shaping our Future Business design proposals, pay and grading proposals, and new HR policies.

We chose not to conduct a full staff survey in 2018–19 because we recognised that a single survey would not allow us to understand the potentially changing views of staff during a period of significant organisational restructuring. As a result we undertook

a number of 'pulse' snapshot surveys to help us explore staff views. As expected, many staff told us of their worries but these have started to diminish as benefits and opportunities start to be realised as we move into post implementation.

### Equality and diversity and employment monitoring

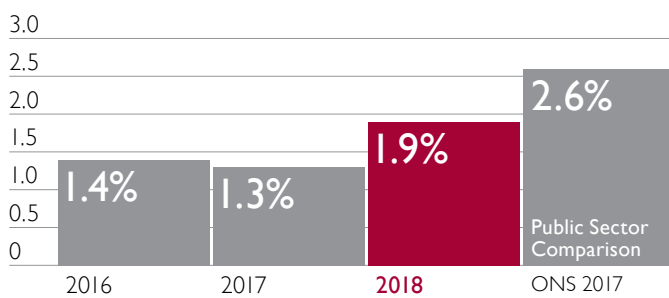
Embracing and promoting diversity and inclusivity remain at the heart of our business and our values. In all of our activities, we continue to maintain our long-standing commitment to equality and inclusion – in the reach of our investment, in our workforce, and in appointing decision-makers. We recognise and appreciate the value of having a diverse staff group and a diverse Board and Committee membership. These goals are explicit in our Corporate Strategy and in our new Strategic Funding Framework.

As an employer, 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.

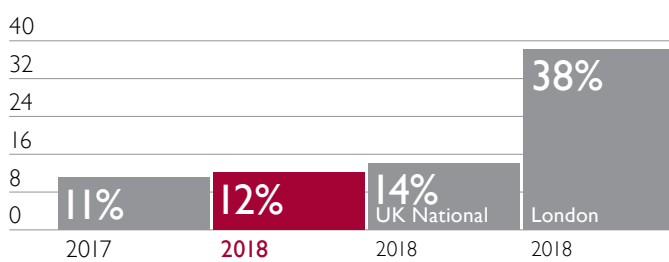
However, we recognise that our workforce diversity should closer reflect the diverse population of the UK (see charts opposite) and our ambition remains to improve this. BAME, LGBTQ+ and disabled staff are all under-represented in the workforce. Men are also under-represented, including posts at senior levels where 75% of our Executive Directors are women (including our CEO) and more than half of our Board of Trustees.

Shaping our Future Business, our organisational restructuring, proactively addressed the need for all staff in the organisation to understand, own and drive diversity actions. Equality and inclusion responsibilities are being refocused and embedded across the organisation. Equalities training became mandatory for all new staff in 2018–19. All job descriptions were revised to include new, explicit responsibilities to promote and champion diversity stated for all managers and non-managers – both internally and externally working with individuals, communities and stakeholder groups. Role specifications for recruitment and promotion require also candidates to demonstrate experience of managing and supporting diversity. Our investment in our new HR management information system, and a new i-recruit system in 2019, will also help us better understand and manage the diversity of our workforce.

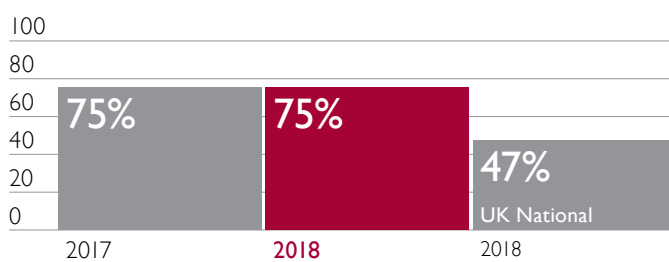
### Absence levels



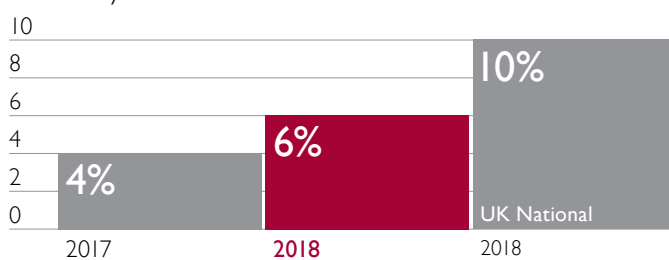
### Ethnic diversity: BAME in the workforce



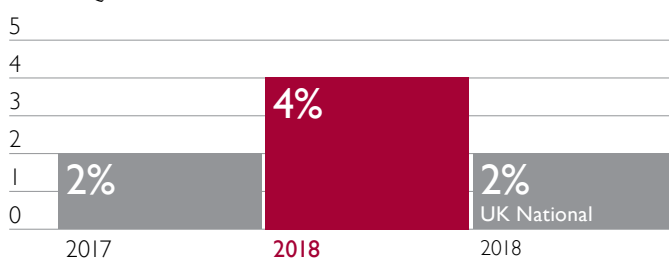
### Gender diversity: Women in the workforce



### Disability diversity: Disability in the Workforce



### Sexual orientation diversity: LGBTQ+ in the workforce



The Fund complies with the Equality Act 2010 and our statutory duties under Section 75 of the Northern Ireland Act 1998. We hold the Disability Confident and Investors in People awards

### Expenditure on consultancy

NHMF spent £8,006 on consultants in 2018–19 (2017–18: £15,480). NHMF has used the definitions of consultancy contained within annex 6.1 of the Cabinet Office controls guidance: version 4.0.

### Whistleblowing

The Fund has a clear and accessible Whistleblowing Policy designed to enable staff to raise concerns and to disclose information that the individual believes shows malpractice or impropriety. This covers concerns that are in the public interest and includes the following (non-exclusive) matters:

- financial malpractice or impropriety or fraud
- failure to comply with a legal obligation or statute
- dangers to health and safety or the environment
- criminal activity
- improper conduct or unethical behaviour
- attempts to conceal any of the above

### Tax arrangements of public sector employees

HM Treasury requires all central government bodies to report on the tax status of senior management and long-term contractors. In particular HM Treasury requires all senior managers to be on the payroll and to pay tax under the PAYE scheme. There are no off-payroll arrangements. All staff, Trustees and regional and country committee members are on the payroll of NHMF and therefore pay tax and national insurance contributions through the PAYE route. We have no contractors that do not meet HM Treasury guidance.

### Pension liabilities

The Fund makes contributions to the pension schemes of staff. Other than making these payments the Fund has no pension liabilities.

### Ros Kerslake OBE

Chief Executive and Accounting Officer

8 July 2019

*Parliamentary accountability and audit report*

**The certificate and report of the Comptroller and Auditor General to the Houses of Parliament and Scottish Parliament**

**Opinion on financial statements**

I certify that I have audited the financial statements of the National Heritage Memorial Fund for the year ended 31 March 2019 under the National Heritage Act 1980. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Accountability Report that is described in that report as having been audited.

In my opinion:

- the financial statements give a true and fair view of the state of the National Heritage Memorial Fund's activities as at 31 March 2019 and of its operating deficit for the year then ended; and
- the financial statements have been properly prepared in accordance with the National Heritage Act 1980 and Secretary of State directions issued thereunder.

**Opinion on regularity**

In my opinion, in all material respects the income and expenditure 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.

**Basis of opinions**

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the National Heritage Memorial Fund in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

**Conclusions relating to going concern**

I am required to conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the National Heritage Memorial Fund's ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern. I have nothing to report in these respects.

**Responsibilities of the Trustees and Accounting Officer for the financial statements**

As explained more fully in the Statement of Trustees' and Accounting Officer's Responsibilities, the Trustees and Chief Executive as the Accounting Officer are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

**Auditor's responsibilities for the audit of the financial statements**

My responsibility is to audit, certify and report on the financial statements in accordance with the National Heritage Act 1980.

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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material



misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the National Heritage Memorial Fund's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

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

#### **Other Information**

The Trustees and the Accounting Officer are responsible for the other information. The other information comprises information included in the Annual Report, other than the parts of the Accountability Report described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

#### **Opinion on other matters**

In my opinion:

- the parts of the Accountability Report to be audited have been properly prepared in accordance with Secretary of State directions made under the National Heritage Act 1980; and
- in the light of the knowledge and understanding of the National Heritage Memorial Fund and its environment obtained in the course of the audit, I have not identified any material misstatements in the Performance Report or the Accountability Report; and
- the information given in the Performance Report and Accountability Report 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:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the parts of the Accountability Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

#### **Report**

I have no observations to make on these financial statements.

#### **Gareth Davies**

Comptroller and Auditor General

12 July 2019

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

## The financial statements

### Statement of comprehensive net expenditure

for the year ended 31 March 2019

	Notes	£'000	2018-19 £'000	2017-18 £'000
<b>Sundry operating income</b>	3		1	233
New standard awards made in the year	14	(5,522)		(5,735)
LPOW Roof Repair Fund* awards made in the year	14	(0)		(1,236)
De-committed awards	14	(518)		694
			(6,040)	(6,277)
Staff costs	23	(105)		(166)
Depreciation	9 and 10	(2)		(2)
Other operating charges	4	(153)		(180)
			(260)	(348)
<b>Operating expenditure</b>			(6,300)	(6,625)
<b>Operating deficit</b>			(6,299)	(6,392)
Profit on the sale of investments	5	2		153
Interest receivable	6	47		51
Distributions received	7	810		0
<b>Non-operating income</b>			859	204
<b>Comprehensive net expenditure transferred to the accumulated fund</b>			(5,440)	(6,188)
<b>Other comprehensive income</b>				
Net gain on revaluation of available for sale financial assets	18		1,196	346
<b>Total comprehensive expenditure for the year ended 31 March 2019</b>			(4,244)	(5,842)

\* Listed Places of Worship: Roof Repair Fund

The statement of comprehensive net expenditure excludes The National Lottery distribution activities of NHMF, which are reported in a separate set of accounts. All figures shown relate to continuing activities with the exception of the closure of the LPOW programme. The notes on pages 50 to 59 form part of these accounts.

## Statement of changes in taxpayers' equity

for the year ended 31 March 2019

	Fair value reserve £'000	Income and expenditure account £'000
Balance at 31 March 2017	15,975	23,307
<b>Changes in taxpayers' equity in 2017–18</b>		
Net gain on revaluation of investments	346	0
Comprehensive net expenditure transferred to the accumulated fund	0	(6,188)
Grant-in-aid from DCMS	0	12,458
Balance at 31 March 2018	16,321	29,577
<b>Changes in taxpayers' equity in 2018–19</b>		
Net gain on revaluation of investments	1,196	0
Comprehensive net expenditure transferred to the accumulated fund	0	(5,440)
Grant-in-aid from DCMS	0	4,629
<b>Balance at 31 March 2019</b>	<b>17,517</b>	<b>28,766</b>

The fair value reserve relates to the difference between book cost and market value of the investments in the endowment fund (see note 11 on page 53). The difference between book and market value of intangible fixed assets and property, plant and equipment (see notes 9 and 10 on page 53) is not material.

## Statement of financial position

as at 31 March 2019

	Notes	31 March 2019 £'000	31 March 2018 £'000
<b>Non-current assets</b>			
Intangible fixed assets	9	1	0
Property, plant and equipment	10	2	4
Long-term financial assets available for sale	11	45,132	43,939
		<b>45,135</b>	43,943
<b>Current assets</b>			
Trade and other receivables	12	210	235
Cash and cash equivalents	8	2,095	7,049
Cash held in the endowment fund	11	0	0
		<b>2,305</b>	7,284
<b>Total assets</b>		<b>47,440</b>	51,227
<b>Current liabilities</b>			
Payables	13	(86)	(69)
Grant liabilities due within one year	14	(1,071)	(5,260)
		<b>46,283</b>	45,898
<b>Non-current assets plus net current assets</b>			
		<b>46,283</b>	45,898
<b>Non-current liabilities</b>			
Grant liabilities due after one year	14	0	0
		<b>46,283</b>	45,898
<b>Assets less liabilities</b>			
		<b>46,283</b>	45,898
<b>Taxpayers' equity</b>			
Fair value reserve	18	17,517	16,321
Income and expenditure account		28,766	29,577
		<b>46,283</b>	45,898

This statement excludes balances relating to The National Lottery distribution activities of NHMF, which are reported in a separate set of accounts. The notes on pages 50 to 59 form part of these accounts.

**Sir Peter Luff**

Chair

8 July 2019

**Ros Kerslake OBE**

Chief Executive and Accounting Officer

## Statement of cash flows

for the year ended 31 March 2019

	Notes	2018-19 £'000	2017-18 £'000
<b>Operating activities</b>			
Cash from sundry operating income	3	1	233
Cash paid to and on behalf of employees		(65)	(155)
Interest received	6	47	51
Cash received from donations		229	0
Cash paid to suppliers		(177)	(501)
Cash paid to grant recipients	14	(10,229)	(8,864)
<b>Net cash outflow from operating activities</b>	16a	<b>(10,194)</b>	(9,236)
<b>Investing activities</b>			
Capital expenditure and financial investment	16b	(1)	(0)
Endowment fund net cash receipts	16b	612	416
<b>Net cash inflow from returns on investments</b>		<b>611</b>	416
<b>Cash flow before financing</b>		<b>(9,583)</b>	(8,820)
<b>Financing activities</b>			
Grant-in-aid received	16c	4,629	12,458
<b>(Decrease)/increase in cash and cash equivalents</b>		<b>(4,954)</b>	3,638

The notes on pages 50 to 59 form part of these accounts.

## Reconciliation of net cash flow to movement in net funds

for the year ended 31 March 2019

	2018-19 £'000	2017-18 £'000
(Decrease)/increase in operating cash in the period	(4,954)	3,638
Cash used to increase liquid resources	0	0
<b>Changes in cash and cash equivalents</b>	<b>(4,954)</b>	3,638
Cash and cash equivalents at 1 April	7,049	3,411
<b>Cash and cash equivalents at 31 March</b>	<b>2,095</b>	7,049

The notes on pages 50 to 59 form part of these accounts.

# Notes to the accounts

for the year ended 31 March 2019

## 1. Statement of accounting policies

With one exception, 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 National Lottery distribution activities. The anticipated impact of IFRS 9 (Financial Instruments) and 15 (Revenue from Contracts With Customers) is expected to be negligible. IFRS 16 (Leases) will have a significant effect on our 2019–20 accounts, particularly those for our National Lottery distribution activities, which are analysed in note 24 below.

### a) Accounting convention

These accounts are drawn up in a form directed by the Secretary of State for Digital, Culture, Media and Sport and approved by HM 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 for the Department for Digital, Culture, Media and Sport (DCMS) in October 2002. The accounting treatments contained in the FREM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. The National Lottery accounts' direction issued by the Secretary of State for Digital, Culture, Media and Sport specifically excludes the preparation of consolidated accounts.

Copies of The National Lottery distribution and grant-in-aid accounts' directions may be obtained from the Secretary to the Board, National Heritage Memorial Fund, Mezzanine Floor, International House, 1 St Katharine's Way, London, E1W 1UN.

Where the FREM permits a choice, the accounting policy that 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 within this statement. They have been applied consistently in dealing with items that are considered material to the accounts.

### b) Government grants

Our grant-in-aid from DCMS is not treated as income. Instead it is treated as financing because it is regarded as a contribution from a controlling party that gives rise to a financial interest. This is done by making an adjustment to the accumulated fund. No allocation is made between grants for revenue and capital purposes. The amount of grant-in-aid recognised in these accounts reflects the amounts actually received from DCMS during the financial year.

### c) Donations

Donations are treated differently from money received as part of joint grant programmes. A donor is someone that has no involvement in any decision to spend that money. If there is involvement, then it would be treated as a joint grant programme.

Donations are normally charged to the period in which the funds were received. However, where there is a contractual relationship between NHMF and the donor, the donation is charged to the period when the associated activity occurred, irrespective of when the funds were received.

### d) Non-current assets

Non-current assets are defined as those items purchased for the long-term use of NHMF and its National Lottery distribution activities 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. Depreciation begins in the month after the asset is put into operation.

### e) Investments

Non-current financial assets – our investments – are included in the accounts at market value as reported to us by our investment managers. 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 these investments are reflected in the fair value reserve, which is disclosed in the statement of financial position and the statement of changes in taxpayers equity.

### f) Taxation

No provision is made for general taxation as NHMF is statutorily exempt under section 507 of the Income and Corporation Taxes Act of 1988. NHMF is unable to recover Value Added Tax (VAT) charged to it, and the VAT-inclusive cost is included under the relevant expenditure descriptions in these accounts.

### g) 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. Almost all of our staff are members of PCSPS or alpha (the follow-up scheme to PCSPS) and the percentage of pensionable pay is notified by the Cabinet Office prior to the start of each financial year. See the remuneration and staff report for further details.

### h) 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. Please note that this treatment will change from 2019–20 onwards as a result of IFRS16 – note 24 has further details.

### i) Grant decisions

Positive decisions by Trustees are recognised in the statement of comprehensive net expenditure at the time of award. De-commitments of these decisions occurs when an award or part award is not taken up by a grantee. The time of recognising a de-commitment depends upon agreement between NHMF staff and the grantee. Whilst this is normally straightforward, NHMF is aware of its contractual requirement to pay up to the full grant award and so is prudent in de-committing awards.

### j) Allocation of costs and segmental reporting

IFRS 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 these cases appropriate alternative methods would be used. NHMF accounts separately for its National Lottery distribution activities, which it is required to do under its National Lottery accounts' direction. Note 21 on page 58 contains further information.

NHMF incurs indirect costs that 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 the Treasury publication *Managing Public Money*.

This cost apportionment seeks to reflect the specific proportion of time and expenses committed to each activity. At the end of the financial year the proportion of joint costs apportioned to our National Lottery distribution activities was 99% (2017–18: 99%).

### k) Loans

Trustees are entitled to make loans to heritage bodies under the National Heritage Act 1980. Interest rates and repayment terms are at the discretion of Trustees.

### l) Apprenticeship levy

The apprenticeship levy was introduced in 2017–18. Whilst the sums we pay are theoretically available to partially fund the cost of courses undertaken by our apprentices, it is currently unlikely that we will be able to utilise these sums fully. Therefore, it is our policy to write-off the levy in the period in which the payment was made unless there is certainty that the sum will be utilised – i.e. the apprentice is in place and the course is booked.

## 2. Grant-in-aid

	2018–19 £'000	2017–18 £'000
Grant from DCMS	4,629	12,458

The large fall in grant-in-aid reflects the impact of LPOW Roof Repair Fund, as that programme came to an end in early 2018–19. £7.46million of grant-in-aid specific to that programme was drawn down from DCMS in 2017–18; there was no equivalent receipt in 2018–19. Furthermore, we returned £371,000 to DCMS in 2018–19 representing overpaid grant-in-aid from 2017–18. This was because not all grantees under LPOW took up their full grant. The remaining £5million represented our standard grant-in-aid.

## 3. Sundry operating income

This comprises:

	2018–19 £'000	2017–18 £'000
Repayments of grant	0	0
Donations and bequests	1	233
	1	233

Donations in 2017–18 represented receipts from the Northern Ireland Tourist Board (trading as Tourism NI) and the Department for Communities (a part of the Northern Ireland Executive) as part of the European Year of Cultural Heritage.

The Trustees gratefully received an anonymous donation of £1,200 during the year.

#### 4. Operating deficit

The operating deficit is stated after charging the following:

	2018-19 £'000	2017-18 £'000
Auditor's remuneration	16	16
Payments under operating leases		
– leasehold premises	7	7
– hire of plant and machinery	0	0

There were no non-audit fees paid to the external auditors. Additional costs of £9,660,000 have been allocated to NHMF's Lottery distribution accounts. As disclosed in note 1 on page 50, NHMF is required to apportion its costs to its National 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:

	2018-19 £'000	2017-18 £'000
Accommodation	11	11
Postage and telephone	3	3
Office supplies, print and stationery	0	4
Travel, subsistence and hospitality	2	10
Professional fees		
– grant-related	6	6
– non-grant-related	99	123
Communications	17	15
Sundry expenses	6	4
Office equipment	9	4
	<b>153</b>	<b>180</b>

#### 5. Profit on the sale of investments

	2018-19 £'000	2017-18 £'000
Long-term financial assets available for sale	2	153

Profits (or losses) are earned on the disposal of investments held in the endowment fund when NHMF requires funds to pay grants or the administration costs of our investment managers. Income has fallen as we no longer need to sell endowment fund investment units to raise cash. The partial switch of units from capital appreciation to income generation means that cash is available without the need for sales.

#### 6. Interest received

	2018-19 £'000	2017-18 £'000
Bank interest received		
– Lloyds Bank	47	51
	<b>47</b>	<b>51</b>

We might also hold cash not required in the short-term with our investment managers if and when they had access to better market interest rates. This did not occur in either 2017-18 or 2018-19.

#### 7. Distributions received

	2018-19 £'000	2017-18 £'000
Income from endowment fund	810	0

At the start of 2018-19, we swapped some of the capital accumulation units for income distribution units in our endowment fund. The purpose of this is to raise additional funds for grants now that we have reached our long-term target value for the endowment.

#### 8. Cash and cash equivalents

	2018-19 £'000	2017-18 £'000
Instant access		
– Lloyds Bank	2,095	7,049
	<b>2,095</b>	<b>7,049</b>

Cash is held in Lloyds to support our day-to-day activities. Funds not required for immediate use were placed with our investment managers when they had access to better interest rates than we could source directly. Schroders will place the money on deposit with other financial institutions.

We continue to review interest rates available in the market for short-term deposits.



## 9. Intangible fixed assets

	Website		Information Technology		Total	
	2018-19 £'000	2017-18 £'000	2018-19 £'000	2017-18 £'000	2018-19 £'000	2017-18 £'000
Cost at start of year	0	0	0	0	0	0
Additions	0	0	1	0	1	0
<b>At end of year</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>1</b>	<b>0</b>
Amortisation at start of year	0	0	0	0	0	0
Charge for the year	0	0	0	0	0	0
<b>At end of year</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Net book value at start of year	0	0	0	0	0	0
<b>At end of year</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>1</b>	<b>0</b>

The capitalisation of information technology represents the development of electronic application forms and an application assessment management system. The above figures represent the Fund's share of costs invoiced to NHMF by software developers; almost all the costs have been charged to our National Lottery distribution activities. No internally-generated costs have been capitalised. Additions have been amortised over their expected useful lives.

A review of the current cost values of intangible fixed assets, at 31 March 2019, revealed no material difference to historic cost values. Therefore, no adjustment has been made to reflect current cost values of intangible fixed assets.

## 10. Property, plant and equipment

	Short-leasehold property		IT and other equipment		Office fittings		Total	
	2018-19 £'000	2017-18 £'000	2018-19 £'000	2017-18 £'000	2018-19 £'000	2017-18 £'000	2018-19 £'000	2017-18 £'000
Cost at start of year	3	3	20	20	1	1	24	24
Additions	0	0	0	0	0	0	0	0
Disposals	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
<b>At end of year</b>	<b>3</b>	<b>3</b>	<b>20</b>	<b>20</b>	<b>1</b>	<b>1</b>	<b>24</b>	<b>24</b>
Depreciation at start of year	2	2	17	15	1	1	20	18
Charge for the year	1	0	1	2	0	0	2	2
Adjustment on disposal	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
<b>At end of year</b>	<b>3</b>	<b>2</b>	<b>18</b>	<b>17</b>	<b>1</b>	<b>1</b>	<b>22</b>	<b>20</b>
Net book value at start of year	1	1	3	5	0	(0)	4	6
<b>At end of year</b>	<b>0</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>0</b>	<b>0</b>	<b>2</b>	<b>4</b>

Trustees have considered the current cost values of property, plant and equipment. A review of the current cost values at 31 March 2019 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 National Lottery distribution activities. This split is currently 99% Lottery and 1% grant-in-aid.

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

NHMF was set up in 1980 as successor to the National Land Fund. 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 was to be treated as an 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. The table on analysis of investments at the year end on page 54 summarises the spread of investments by type and region.

In 2018-19, Trustees changed the target index from the Retail Prices Index to the Consumer Prices Index. The former index is no longer popular in the investment world and there was concern that index numbers might not be produced in the future.

The aim is that 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. As mentioned elsewhere in this document, Trustees have now tasked the investment managers with generating an annual income that is added to the grant-in-aid received from DCMS.

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 Consumer Prices Index.

At 31 March 2019, the original £10million investment would be worth £42.9million taking into account indexation. The actual market value was £45.1million including cash held within the endowment.

The endowment fund comprises the following:

	Market value 2018-19 £'000	Book cost 2018-19 £'000
Long-term financial assets	45,132	27,615
Cash	0	0
	<b>45,132</b>	<b>27,615</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 the Charity Multi-Asset Fund run by Cazenove Capital, a trading name of Schroders, which invests in a range of 30 unit and investment trusts across many asset types and geographic markets. Units in the Charity Multi-Asset Fund are sold to raise funds for grant payments and administrative expenses. This is the reason that the assets are described as 'available for sale'. Trustees have no plans to liquidate the entire endowment fund.

	2018-19 £'000	2017-18 £'000
Cost and net book value		
At start of year	27,618	27,881
Additions	0	0
Disposals	(3)	(263)
<b>At end of year</b>	<b>27,615</b>	<b>27,618</b>

Net book value		
Listed on the		
London Stock Exchange	0	0
Unlisted investments	27,615	27,618
	<b>27,615</b>	<b>27,618</b>

Cost	27,615	27,618
Market value	45,132	43,939
Unrealised gain	17,517	16,321

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

An analysis of investments at the year end was:

	2018-19 %	2017-18 %
Bonds	1	1
UK equity	24	31
Europe equity (excluding UK)	3	4
North America equity	11	7
Japan and other Asian equity	6	6
Emerging market equity	6	6
Global equity funds	13	9
Property	9	10
Absolute return/hedge	16	16
Infrastructure	3	2
Cash	5	5
Commodities	3	3
	<b>100</b>	<b>100</b>

Further information about the underlying investments of the endowment fund is elsewhere in this report.

## 12. Trade and other receivables – all due within one year

	2018-19 £'000	2017-18 £'000
Repayment of grant	0	0
Prepayments and accrued income	210	235
	<b>210</b>	<b>235</b>

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

## 13. Payables – amounts falling due within one year

	2018-19 £'000	2017-18 £'000
Operating payables	22	3
Other payables including		
taxation and social security	18	18
Accruals and deferred income	46	48
	<b>86</b>	<b>69</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 (2017-18: £3,000).

#### 14. Grant liabilities

	2018-19 £'000	2017-18 £'000
At start of year	5,260	7,847
Grants paid in the year	(10,229)	(8,864)
Standard commitments created in the year	5,522	5,735
LPOW Roof Repair Fund commitments created in the year	0	1,236
De-committed awards	518	(694)
<b>At end of year</b>	<b>1,071</b>	<b>5,260</b>

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

	2018-19 £'000	2017-18 £'000
In one year	1,071	5,260
In two to five years	0	0
	<b>1,071</b>	<b>5,260</b>

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

	2018-19 £'000	2017-18 £'000
Balances owing to		
– central government	435	545
– local authorities	558	348
– other bodies	78	4,367
	<b>1,071</b>	<b>5,260</b>

#### 15. Commitments

Total future minimum operating lease payments incurred by NHMF are as follows:

	2018-19 £'000	2017-18 £'000
Short-leasehold property		
– not later than one year	8	8
– later than one year but not later than five years	11	34
– later than five years	0	13
	<b>19</b>	<b>55</b>

In addition, short leasehold property lease commitments of £2,309,000 (2017-18: £6,354,000) have been allocated to NHMF's National Lottery distribution activities and are disclosed in those accounts. NHMF has no capital commitments contracted for or capital commitments approved but not contracted for.

#### 16. Notes to the statement of cash flows

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

	2018-19 £'000	2017-18 £'000
Operating deficit	(6,299)	(6,392)
Interest receivable	47	51
Add back non-cash items		
– depreciation	2	2
Decrease in grant commitment reserve	(4,189)	(2,587)
Decrease/(increase) in receivables (excluding capital and investments)	228	(233)
Increase/(decrease) in non-capital payables	17	(77)
Net cash outflow from operating activities	<b>(10,194)</b>	<b>(9,236)</b>

b) Capital expenditure and financial investment:

	2018-19 £'000	2017-18 £'000
Payments to acquire		
– property, plant and equipment	(0)	(0)
– intangible fixed assets	(1)	(0)
– long-term financial assets available for sale	(0)	(0)
Receipts from sales of		
– property, plant and equipment	0	0
– long-term financial assets available for sale	5	416
Income from long-term financial assets available for sale	607	0
	<b>611</b>	<b>416</b>

c) Analysis of changes in net funds:

	At 1 April 2018 £'000	Operating cash flows £'000	Grant-in-aid £'000	At 31 March 2019 £'000
Cash at bank	7,049	(9,583)	4,629	<b>2,095</b>

#### 17. 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 National Lottery distribution activities) has had various material transactions, other than grant awards, with DCMS itself and with two entities for which DCMS is regarded as the sponsor department – the Big Lottery Fund (now referred to as The National Lottery Community Fund) and Arts Council England. Further details of these transactions and balances can be found in the accounts of the National Lottery distribution activities of NHMF.

In May 2011, the Committee on Climate Change signed an underlease for most of the first floor of NHMF's offices, at 7 Holbein Place, London. In August 2016 the area occupied by the Committee

on Climate Change was reduced by about a half with a commensurate reduction in rent and contribution to service charges. The Committee on Climate Change is a non-departmental public body, which is jointly-sponsored by the Department for Business, Energy and Industrial Strategy, Department for Environment, Food and Rural Affairs, the Scottish government, the National Assembly for Wales and the Northern Ireland Executive. In March 2019, NHMF gave notice under a break clause in the lease contract that it would be leaving the property by the end of September 2019. We kept the Committee on Climate Change fully informed during our decision-making period and they have indicated to us that they will seek alternative accommodation in the period to September 2019. Therefore, we will continue to receive rental income from the Committee until the end of September 2019, which will amount to £38,000. In addition, the Committee on Climate Change will make contributions towards the cost of running Holbein Place of approximately £19,000 for the period April to September 2019. During 2018–19, we charged the Committee on Climate Change £75,000 for rent and £36,000 for service charges. At 31 March 2019, we owed the Committee on Climate Change £1,000 for service charges, most of which is reflected in our accounts for National Lottery distribution activities.

Trustees and panel members are required to maintain a register of interests in heritage bodies, which is updated every year in conjunction with our Secretariat team. At the start of each panel or Board meeting, Trustees and panel members declare any connection with applicants and absent themselves from any part of the meeting where that grant application is discussed. They take no part in the decision as to whether a grant is awarded nor are they involved in any discussion about that project prior to or subsequent to that grant decision. There are also strict rules on the circumstances in which Trustees and panel members can accept paid work from a grantee. Therefore, Trustees are satisfied that in no case did individuals have an influence on the decision-making process for those projects with which they have a connection.

There were no NHMF grants awarded in 2018–19 where Trustees, staff or NHMF advisory panel members had an interest. Details of interests in National Lottery grants are set out in the accounts of the National Lottery distribution activities of NHMF.

There were no other commercial transactions in which Trustees or staff had a material interest or influence. In 2018–19 there will also have been related-party transactions, in the form of grant payments, relating to awards made and disclosed in previous years. As those related-party transactions have been previously disclosed, they are not repeated here.

## 18. Fair value reserve

	2018–19 £'000	2017–18 £'000
At start of year	16,321	15,975
Movement in the year	1,196	346
<b>At end of year</b>	<b>17,517</b>	16,321

The reserve relates to the difference between book cost and market value of long-term financial assets available for sale (see note 11 on page 53). The difference between book and market value of intangible fixed assets and property, plant and equipment (see notes 9 and 10 on page 53) is not material.

## 19. Financial instruments

IFRS 7, *Financial Instruments: Disclosures*, 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. With the exception of the endowment fund, 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 £4.63million as grant-in-aid during 2018–19 and has received a further £5million in April 2019. Furthermore, Trustees maintain an endowment fund and its underlying investment in Cazenove's Charity Multi-Asset Fund is widely traded. Trustees are able to liquidate assets on a daily basis should the need arise to fund grant payments. Therefore Trustees are satisfied that they have sufficient liquid resources, in the form of their cash balances (worth £2.1million at the date of the statement of financial position) and the endowment fund (worth £45.1million at the date of the statement of financial position), to cover all outstanding grant awards of £1.1million and administrative liabilities of £85,000. The endowment is invested in a fund that 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. Trustees consider that the Fund is not exposed to significant liquidity risks.

### Market and interest rate risk

Cash balances were held in a variety of bank accounts, all at variable interest rates. Our accounts with Lloyds, carried an average interest rate of

0.62%. The small rise in base rates in August 2018 improved the average return slightly. These accounts were used to make grant payments and fund our administration. In previous years, we have sometimes taken advantage of holding sums with our investment managers as they may have access to better interest rates than we can source. However, at present, we enjoy attractive rates from Lloyds and so do not take advantage of Schroders' offers. The sharp decline in market interest rates that occurred during 2008–09, as well as the further cut in 2016–17, has had an ongoing impact on returns, but as there is little room for rates to fall further the interest rate risk is small. The year-end cash balances were £2.1million and were held as disclosed in the table on page 52. Other financial assets and NHMF's financial liabilities carried nil rates of interest.

Schroders managed NHMF's endowment under the trading name of Cazenove Capital Management 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 £45.1million. Returns are dependent upon global stock and commodity markets and performance of investments included within the portfolio. In the year, the return on the endowment was a rise of 4.1% and over the past 5 years the annualised return has been 5.5%. Trustees kept the performance of investments under review through their Finance, Staffing and Resources Committee and its Investment Panel, which includes three independent members with extensive experience in financial markets.

As the balance of cash and investments within the endowment fund significantly exceeds the current value of existing liabilities. Furthermore, whilst we have yet to be informed of the level of its grant-in-aid over the next few years, as the Government's Spending Review has yet to be completed, Trustees do not anticipate any reduction in the level of sums received in recent years – we received £5million grant-in-aid in April 2019. Therefore, 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 while reducing their future grant award budgets. Should this request be turned down by the Secretary of State for Digital, Culture, Media and Sport, Trustees will review their long-term grant award strategy.

	2018–19 £'000	2017–18 £'000
Cash balances		
– sterling at floating interest rates	2,095	7,049
– sterling at a mixture of fixed and floating rates	0	0
– sterling at fixed rates	0	0
	<b>2,095</b>	<b>7,049</b>

### Credit risk

NHMF's receivables mostly comprise amounts earned in the endowment fund but not yet paid over by our investment managers. It is not, therefore, exposed to significant credit risk.

### Foreign currency risks

The endowment fund is invested in Cazenove's Charity Multi-Asset Fund, which is denominated in sterling. The fund invests in a large number of unit trusts and similar products, 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 39%. The 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 Fund. All other assets of NHMF are denominated in sterling.

### Financial assets by category

	2018–19 £'000	2017–18 £'000
Assets per the statement of financial position		
– non-current assets	45,135	43,939
– cash and cash equivalents	2,095	7,049
– loans and receivables	210	235
	<b>47,440</b>	<b>51,223</b>

### Financial liabilities by category

	2018–19 £'000	2017–18 £'000
Liabilities per the statement of financial position		
– other financial liabilities		
• grant commitments	1,071	5,260
• operating payables	22	3
• other payables	18	18
• accruals	46	48
	<b>1,157</b>	<b>5,329</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 2019.

### Financial assets at 31 March 2019

	Book value £'000	Fair value £'000
Cash <sup>1</sup>	2,095	2,095
Investments <sup>2</sup>	27,615	45,132
Receivables <sup>3</sup>	210	210
	<b>29,920</b>	<b>47,437</b>

## Financial assets at 31 March 2018

	Book value £'000	Fair value £'000
Cash	7,049	7,049
Investments	27,618	43,939
Receivables	235	235
	<b>34,902</b>	<b>51,223</b>

## Financial liabilities at 31 March 2019

	Book value £'000	Fair value £'000
Grant payables <sup>4</sup>	<b>1,071</b>	<b>1,071</b>
Operating payables <sup>5</sup>	<b>22</b>	<b>22</b>
Other payables <sup>5</sup>	<b>18</b>	<b>18</b>
Accruals <sup>5</sup>	<b>46</b>	<b>46</b>
	<b>1,157</b>	<b>1,157</b>

## Financial liabilities at 31 March 2018

	Book value £'000	Fair value £'000
Grant payables	5,260	5,260
Operating payables	3	3
Other payables	18	18
Accruals	48	48
	<b>5,329</b>	<b>5,329</b>

### Basis of fair valuation:

- 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.
- 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.
- No provision for bad debt is deemed necessary. None of the debts are long term and so no discounting factor has been applied.
- No discount factor has been applied.
- 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

	2018–19 £'000	2017–18 £'000
In less than one year	<b>1,157</b>	5,329
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>1,157</b>	5,329

## 20. Statement of losses and special payments

NHMF made no losses or special payments during the year (2017–18: £0).

## 21. Segmental reporting

In our accounts for 2017–18, we produced a segmental reporting note to reflect the impact our activities operating the Listed Places of Worship scheme. Whilst we did not finish making grant payments under that scheme until July 2018, almost all the administrative work had been done in 2017–18 and earlier. Therefore, the impact on our administrative costs in 2018–19 was minimal and so we have not carried out segmental analysis for 2018–19.

## 22. Events after the reporting period

There were no events that occurred after 31 March 2019 up until the date the Accounting Officer signed these accounts that need to be disclosed. The financial statements were authorised for issue on 12 July 2019 by the Trustees and Accounting Officer on the date they were certified by the Comptroller and Auditor General.

## 23. Staff costs

	2018–19 £'000	2017–18 £'00
Salaries	<b>78</b>	127
Employer's NI payments	<b>7</b>	11
Payments to pension scheme	<b>14</b>	25
Temporary staff costs	<b>6</b>	3
	<b>105</b>	166

Further information about staff costs is in the Remuneration and Staff Report elsewhere in these accounts.

## 24. IFRS 16

IFRS 16 requires us to take account of the impact of operating lease commitments on our Statement of Financial Position. It will affect our reporting for financial years 2019–20 and beyond. However, we are also required to demonstrate what the impact will be on our figures for 2018–19.

Just before the end of 2018–19, we took over an operating lease for part of International House in the borough of Tower Hamlets, London. The lease has a further three-and-a-half years to run. As with other joint overhead costs, the accounts of the National Heritage Memorial Fund reflect 1% of the cost with the other 99% being disclosed within our National Lottery distribution accounts. 1% of our commitments under this lease is not a large sum, but we set out below what the impact would have been on our 2018–19 figures if IFRS16 had been in place for that year.

Total comprehensive expenditure for 2018–19 before IFRS16	£4,244,000
IFRS16 adjustment	£0
<b>Total comprehensive expenditure for 2018–19 after IFRS16</b>	<b>£4,244,000</b>
Balance on Income & Expenditure account at 31 March 2019 before IFRS16	£28,766,000
IFRS16 adjustment	£0
<b>Balance on Income &amp; Expenditure account at 31 March 2019 after IFRS16</b>	<b>£28,766,000</b>

There is no impact on our cash flows.

The National Heritage Memorial Fund also has other property leases around the UK. These are not included in this analysis as they relate solely to our National Lottery distribution activities – discussion of these are in our National Lottery distribution accounts.

We do not consider any of our other operating leases to be material and so they have not been included in this analysis.

# The Trade Union (Facility Time Publication Requirements) Regulations 2017

Under this statutory instrument, we are required to disclose information about trade union facility time and relevant employee expenditure. This information covers both our grant-in-aid and National Lottery distribution activities. We have apportioned joint costs between The National Lottery Heritage Fund and the National Heritage Memorial Fund in the ratio 99:1.

## 1. Relevant union officials

*What was the total number of your employees who were relevant union officials during the relevant period?*

	Number of employees
Number of employees who were relevant union officials during the relevant period	<b>23</b>
Full-time equivalent employee number	<b>23</b>

## 2. Percentage of time spent on facility time

*How many of your employees who were relevant union officials employed during the relevant period spent a) 0%, b) 1%–50%, c) 51%–99% or d) 100% of their working hours on facility time?*

Percentage of time	Number of employees
0%	<b>1</b>
1–50%	<b>22</b>
51%–99%	<b>0</b>
100%	<b>0</b>

## 3. Percentage of pay bill spent on facility time

*Provide the figures requested in the first column of the table below to determine the percentage of your total pay bill spent on paying employees who were relevant union officials for facility time during the relevant period.*

Total cost of facility time	£31,958*
Total pay bill	£12,872,000*

Percentage of the total pay bill spent on facility time, calculated as:

$$\frac{(\text{Total cost of facility time} \div \text{Total pay bill}) \times 100}{\text{}} = \mathbf{0.25\%}$$

\* Includes pension and NI

## 4. Paid trade union activities

*As a percentage of total paid facility time hours, how many hours were spent by employees who were relevant union officials during the relevant period on paid trade union activities?*

Time spent on paid trade union activities as a percentage of total paid facility time hours calculated as:

$$\frac{(\text{Total hours spent on paid trade union activities by relevant union officials during the relevant period} \div \text{Total paid facility time hours}) \times 100}{\text{}} = \mathbf{100\%}$$



# Disclosure of investments

## The investment of the endowment fund

Trustees regard a £10million lump sum given to the NHMF in 1980 as an endowment to be occasionally used alongside its grant-in-aid to help support the UK's heritage. The endowment fund is invested in order to maximise the return over the long term.

Investment management is outsourced to specialist fund managers following a tendering exercise. NHMF has been using Schroders since 2010 and the entire endowment fund is invested in Schroders' Charity Multi-Asset Fund. The fund is a common investment fund established and approved by the Charity Commission. During 2014–15 Schroders merged with Cazenove Capital Management and now use the latter name for its charity investment management business.

Investment policy is the responsibility of the Investment Panel – a sub-committee of the Board's Finance, Staffing and Resources Committee. The panel comprises two Trustees and three independent financial experts who meet with Cazenove twice a year to discuss its performance.

The Board recognises that there can be public interest in disclosure of the investments being made and sets out details of them below. The Charity Multi-Asset Fund invests in a large number of investment trusts and other types of investment, most of which regularly buy and sell assets. The information was correct at 31 March 2019 and will be updated annually.

Cazenove has its own responsible investment policy that it adopts when making investments. It considers environmental, social and governance issues and produces an annual responsible investment report detailing its activities. Cazenove complies with the United Nations' Principles for Responsible Investment. We require Cazenove to notify us if it is considering investing in any organisation that could lead to embarrassment to NHMF.

Source: Cazenove 31 March 2019

\* Absolute return funds – unlike traditional asset managers, who try to track and outperform a benchmark (a reference index such as the FTSE100), these managers employ different strategies in order to produce a positive return regardless of the direction and the fluctuations of capital markets. These funds are sometimes referred to as hedge funds.

## Charity Multi-Asset Fund – Investment Selection

<b>UK equities</b>	<b>24.2%</b>
Charity Equity Value Fund	7.3%
Charity Equity Income Fund	2.8%
Majedie UK Equity Fund	5.1%
Merian UK Alpha Fund	5.0%
Troy Trojan Income Fund	4.0%
<b>Global equities</b>	<b>13.4%</b>
Schroder QEP Global Core	13.4%
<b>European equities</b>	<b>3.2%</b>
Blackrock European Dynamics Fund	1.5%
Schroder European Alpha Income Fund	1.7%
<b>US equities</b>	<b>10.8%</b>
Vanguard S&P 500 ETF	9.2%
William Blair US Small-mid Cap Growth	1.6%
<b>Asian equities</b>	<b>3.0%</b>
Schroder Asian Alpha Plus Fund	3.0%
<b>Japanese equities</b>	<b>2.9%</b>
Schroder Tokyo Fund	2.9%
<b>Emerging market equities</b>	<b>5.6%</b>
Allianz China A-shares Fund	0.6%
Schroder Global Emerging Markets Fund	5.0%
<b>Equities</b>	<b>63.1%</b>
<b>Absolute return*</b>	<b>15.7%</b>
Henderson UK Absolute Return Fund	2.4%
Majedie Tortoise Fund	2.5%
Pyrford Global Total Return Fund	2.2%
Ruffer Total Return Fund	2.9%
Schroder ISF Emerging Market Debt Absolute Return (£)	2.8%
Troy Trojan Fund	2.9%
<b>Property</b>	<b>9.1%</b>
Charities Property Fund	2.4%
Ground Rents Income Fund	1.5%
Henderson UK Property Fund	0.9%
Property Income Trust for Charities	4.3%
<b>Infrastructure</b>	<b>2.7%</b>
3i Infrastructure	0.9%
HICL Infrastructure	0.8%
International Public Partnerships	1.0%
<b>Commodities</b>	<b>3.1%</b>
Schroder Commodity Fund (£)	1.5%
Schroder Commodity Fund (\$)	1.6%
<b>Alternatives</b>	<b>30.6%</b>
<b>Bonds</b>	<b>1.3%</b>
Twenty Four Absolute Return Credit Fund	1.3%
<b>Cash</b>	<b>5.0%</b>
Cash	5.0%
<b>Bonds and cash</b>	<b>6.3%</b>

# Chair, Trustees and management

## NHMF Chair and Trustees

### Chair

Sir Peter Luff

### Trustees

Maria Adebowale-Schwarte  
from 16 May 2018

Baroness Kay Andrews OBE

Anna Carragher

Sir Neil Cossons OBE  
to 31 January 2019

Dr Angela Dean  
to 12 June 2018

Jim Dixon

Dr Claire Feehily

Sarah Flannigan  
from 16 May 2018

Perdita Hunt DL, OBE

Steve Miller

Richard Morris OBE  
to 16 May 2018

René Olivieri

Atul Patel MBE  
to 16 May 2018

Dame Seona Reid DBE

David Stocker  
from 16 May 2018

Dr Tom Tew

## Executive Directors

### Chief Executive and Accounting Officer

Ros Kerslake OBE

Colin Bailey

Judith Cligman  
to 31 January 2019

Helen Coley-Smith  
to 31 August 2018

Carli Harper-Penman  
from 20 December 2018

Louise Lane  
to 31 January 2019

Eilish McGuinness

## NHMF Advisory Panel

Dr Brian Allen

Dr Janet Barnes CBE

Tim Knox

Geoff Pick

James Stourton

Merlin Waterson CBE

Leslie Webster

## NHMF Investment Panel

Sarah Bates

Simon Fraser

Sir Laurie Magnus

## NHMF team

### Head of NHMF

Sue Bowers

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# Acknowledgements

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