

**NATIONAL  
HERITAGE  
MEMORIAL  
FUND**



## **National Heritage Memorial Fund**

Annual Report and Accounts for the year ended 31 March 2020



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Annual Report and Accounts for the year ended 31 March 2020

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# 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 2019–20:

##### A statement from the Chief Executive

2019–20 was another important year for the work of the National Heritage Memorial Fund (NHMF or the Fund).

The ongoing work of our team in providing grants has helped to save some remarkable items of heritage across the nation and widened public access to these wonderful items 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:

- The Nason Collection – an exceptional collection of Dickens' material including letters, manuscripts and playscripts, now accessible to the UK public at the Dickens' House Museum
- Orazio Gentileschi's *The Finding of Moses* – an outstanding Italian Baroque masterpiece; a royal commission for the Queen's House in Greenwich, secured for the National Gallery
- Derek Jarman's Prospect Cottage – the iconic cottage and garden, hugely influential to contemporary design, culture and art, safeguarded for the Art Fund, with public engagement delivered through Creative Folkestone's management
- Stonehenge landscape acquisition – safeguarding 168 hectares of the Stonehenge landscape, within the World Heritage Site, ensuring the protection of the internationally important archaeology at risk of loss due to arable cultivation. The acquisition is enabling the National Trust to deliver chalk grassland restoration and open public access for the first time to this part of the Stonehenge landscape
- Sir Charles Lyell's notebooks – acquisition of the notebooks of 19th century scientist and author Charles Lyell. Described as the single most important figure in the development of Earth Sciences in Britain, securing his export-stopped notebooks for Edinburgh University will enable

his contribution to be brought into wider public knowledge

- The Martin brothers' *Crab* – another export-stopped case, where our grant secured this characterful example of Martinware to be the star of the collection at the Box in Plymouth

As we reported last year we have taken additional income of around £800,000 per annum from our endowment fund to supplement our grant-in-aid income to provide further funding for these exceptional pieces of heritage. That has worked effectively during the year and where practicable we will continue with that in future years. In 2020–21 we plan to look at the sustainability and environmental responsibility of our investment portfolio as part of our response to the climate emergency.

The COVID-19 crisis came late in the year and we managed the risk effectively with our response through The National Lottery Heritage Fund (see page 3). In the case of the National Heritage Memorial Fund we saw the demand for grants to the Fund reduce as grantees focused on lockdown arrangements and the art markets and Export Reviewing Committee work paused. 2020–21 will also see the 40th anniversary of the Memorial Fund and we will be marking the achievements of the Fund over those four decades. The Board feel that this Fund, formed to protect our most outstanding heritage at risk of loss as a memorial to those who have given their lives for the UK, has a role to play in supporting and saving our outstanding heritage post-COVID. We are working on those plans with stakeholders and hope to announce progress in the late summer.

Let me take this opportunity to 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. I am also very grateful for the continued advice and support of the Advisory Panel.

From December 2019 to 30 April 2020, I have been absent from the Fund as a result of serious illness. It is a tribute to hard work of the Executive Team and the professionalism of its staff that the organisation operated during my absence without any diminution in its support to the sector.

Finally, I should like to pay tribute to Sir Peter Luff who retired as our Chair in December 2019. We will miss his enthusiasm for heritage, inspiring leadership and gentle good humour. We are very grateful to René Olivieri who has stepped in more than capably as interim Chair pending a permanent appointment.

#### 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 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 principal risk last year was the COVID-19 crisis, although this materialised late within the year the impact was significant and of course the ramifications have continued into the new financial year.

Our initial risk response was to close all of our offices, ask all our staff to work from home in a new virtual environment and invoke our Business Continuity Plan. We were able to successfully implement all of these measures within 48 hours of the UK Government's requirements and we have since then, and throughout the crisis, been able to continue to deliver all of our services to all of our customers with no disruption.

Within the first three weeks of the crisis we commissioned a survey across the sector to identify key issues, financial and operating risks to help inform our immediate response. Within that time we were also able to assemble an immediate £50million emergency funding package for grantees that had received funding derived from The National Lottery. Our policy and strategy teams were also able to garner insight and data across the different elements of the sector and across the UK to refine our response and targeted effort.

The National Lottery emergency response programme is flexible enough to be able to adapt to future needs and requirements across the sector and we keep those under constant review. We are considering our NHMF response to the COVID crisis using our available grant-in-aid, and utilising some of our endowment fund, in the hope of launching in Autumn 2020.

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 £828,000 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 and other geo-political events. We have a prudent investment risk management approach agreed with our Investment Manager incorporating a spread of investment that targets reduced volatility as well as an acceptable return. Our specialist Investment Panel continues to provide advice and risk assessment judgments against this backdrop.

### Our corporate strategy 2018–2021

The corporate strategy set out our vision for the role of NHMF over the three years from 2018 until 2021. The strategy took further steps towards a stronger leadership position, building on our role as largest dedicated source of funding for heritage across the UK. There was a particular focus on opportunities beyond pure grant giving.

We have made strong progress in delivering the corporate strategy in 2019–20. We secured additional funding for our Lottery-financed Kick the Dust programme using grant-in-aid from the Department for Digital, Culture, Media and Sport’s Youth Accelerator Fund. We launched with National Lottery money two social investment funds: the Heritage Impact Fund co-ordinated by the Architectural Heritage Fund in partnership with ourselves, Historic England, CADW and Historic Environment Scotland; and the Arts and Culture Impact Fund in partnership with NESTA, Arts Council England, Esmée Fairbairn, Big Society Capital and Bank of America Merrill Lynch. The Future Parks Accelerator, a joint venture with the National Trust, is supporting nine locations in England and Scotland to transform the publicly accessible greenspace in their town or city and develop new financial models that will enable parks to be financially sustainable for the next generation; again, we are using National Lottery funding for this. In addition, we are reviewing our legal powers to ensure that we can deliver the ambitions that we set out in the strategy.

In 2019–20 we have refreshed our corporate strategy to align with our Strategic Funding Framework 2019–24; to respond to the changing context in which the Fund operates, particularly the increased urgency of the climate and ecological emergency; and to recognise the internal changes that have been implemented through our business transformation programme. The refreshed strategy was substantially developed before the COVID-19 crisis. We have made some additions to position the strategy in the context of this new and significant global crisis. We acknowledge that some of these priorities will change as a result of COVID-19.

Our revised vision for the Fund is “we will be recognised for our expertise and leadership across UK heritage. Through our ambitious funding programmes and partnerships, we will inspire, lead and resource sustainable, thriving UK heritage. Positive and lasting change will be created for people and their communities, now and in the future.”

### Going concern

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 2020–21 that is not expected to alter that position. The impact of the COVID-19 pandemic is ongoing. However, Trustees have no reason to believe that their chief source of income – grant-in-aid – will not continue to be received. Grant-in-aid for 2020–21 has already been received. We remain open for business during the lockdown period and are able to provide a full service to the heritage sector. Therefore, 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. These are shown in the section of this report on key performance indicators on page 8. Our most significant indicator was as follows:

Indicator (for standard awards only)	Outcome in 2019–20
NHMF costs will be under 5% of grant-in-aid	Met (4.7%)

Trustees are pleased to note that they met this target in a challenging year particularly as the Fund was in excess of the target in 2018–19.

If we include all our income in the calculation, including that derived from the endowment fund, then the percentage falls further to 3.7%.

### Performance analysis

The NHMF received 22 standard applications this year, all of which were supported by trustees, to a total of £9,257,978. This has been awarded across a range of heritage, spanning the whole of the United Kingdom.

Established as a lasting memorial to those that have given their lives in conflict for this country, the Fund can help buy anything of outstanding importance to the national heritage which is also either at risk or of memorial character. This year we made one award for an item of memorial character; William South’s Naval General Service Medal 1848. The medal was acquired by the Foundling Museum, William South was a foundling boy who, like many others, went on to perform distinguished military service. It will be displayed at the museum as a rare piece of evidence of the life of one of the earliest foundlings.

The Fund also provides grant-in-aid support to secure items of nationally important heritage that are at risk of loss to the UK and whose export has been temporarily deferred. This year we supported the Joseph Mahoon Double-Manual Harpsichord, an exceptional survival made in 1738 by this noted London maker. Acquired by Gainsborough’s House Society, the harpsichord will be exhibited within the house in a dedicated display exploring Gainsborough’s passion for music.

Acquisition	Applicant	Awarded
Alfred Wallis sketchbooks	Tate Gallery	£371,750
Barrie Cooke papers and artwork	Pembroke College Cambridge	£38,600
Charlotte Brontë's <i>Young Men's Magazine</i>	Brontë Parsonage Museum	£756,000
Derek Jarman's Prospect Cottage	Art Fund	£1,143,570 <sup>A</sup>
Jessie Marion King's artworks	Kirkcudbright Galleries	£8,200
John Lambton, first Earl of Durham archive	Durham University	£302,000
Joseph Mahoon double-manual harpsichord	Gainsborough's House Society	£38,500
Mackay Hugh Baillie Scott secretaire c.1900	Lakeland Arts	£16,700
Martin brothers' <i>Crab</i>	The Box, Plymouth	£139,200
Melford Hall's manuscript of Donne's poetry	British Library	£240,000
Orazio Gentileschi's, <i>The Finding of Moses</i>	National Gallery	£2,500,000
Papers of the Villiers Family, Earls of Clarendon, 17th–20th century	Bodleian Library	£325,000
Paston pietre dure table	Norfolk Museums Service	£651,000
Paul Sandby views of North Wales	National Museum Wales	£115,000
Photograph of Isambard Kingdom Brunel by the launching chains of SS Great Britain	Brunel Museum	£20,000
Sir Charles Lyell's notebooks	University of Edinburgh	£235,620
Stonehenge – acquiring the avenue	National Trust	£800,000
The Nason collection	Charles Dickens Museum	£1,220,000
<i>The West Pier, Brighton</i> by Spencer Gore	Royal Pavilion and Museums	£25,538 <sup>B</sup>
Thomas Cook Egyptian statue	Leicester City Museums Service	£50,000
Triumph 20TR2 Jabbeke record car	British Motor Industry Heritage Trust	£250,000
William South's Naval general service medal 1848	Foundling Museum	£11,300
<b>Total standard grants awarded</b>		<b>£9,257,978</b>

A. Grant amount for Prospect Cottage acquisition is made up of two awards – £750,000 and a grant increase of £393,570.

B. Grant increase amount for *The West Pier, Brighton* acquisition. Original award reported in last year's annual report.

The University of Edinburgh were supported to acquire Sir Charles Lyell's notebooks. Spanning from 1818 to 1871 the notebooks cover Lyell's work on geology, natural history, politics and social history as well as his friendship with, and mentoring of, Charles Darwin. As Lyell's work has never been fully published or available, the acquisition of the notebooks will promote public awareness of the importance of his work to the development of Earth Sciences for the first time.

The third item deferred for export was the Melford Hall manuscript of John Donne's poetry, a rare early manuscript edition containing the whole range of Donne's poetry, one of only five copies known that circulated before his death in 1633, only after which were his works first printed. The acquisition by the British Library will ensure wide public access to the manuscript, including online access and resources. Perhaps the most characterful export deferred item supported this year was the Martin brothers' *Crab*, a

large anthropomorphic sculpture made in 1860 by the acclaimed Martin brothers. Acquired by the Box in Plymouth the crab will form a compelling centrepiece to their Martinware collections.

This year saw the support of some exceptional artworks, most notably that of Orazio Gentileschi's *The Finding of Moses*. This monumental Baroque masterpiece was a royal commission by Queen Henrietta Maria in the early 1630s for the Queen's House at Greenwich, before being sold under the Commonwealth. An exquisite example of Gentileschi's work, the painting, on loan for almost 20 years to the National Gallery, is now safeguarded as part of the Gallery's collection.

Also supported was the purchase of three sketchbooks by Alfred Wallis for Tate and Kettle's Yard. The sketchbooks reflect the development of Wallis's art during his final years and are the only complete sketchbooks of the artist known to survive. For National Museum Wales, we supported the

acquisition of a series of 21 watercolour views of North Wales by Paul Sandby. Created during Sandby's tour of North Wales in 1771 with his patron Sir Watkins Williams Wynn, it was the publication of aquatints based on these original works that illustrated the romantic beauty of North Wales and popularised it as a tourist destination. We also funded a group of artworks by Jessie Marion King, one of the 'Glasgow Girls' group of artists. Acquired by Kircudbright Galleries, the works convey King's role in establishing Kircudbright as an 'Artists' Town'. We also awarded a grant increase to Royal Pavilion and Museums Brighton, ensuring they were able to complete the purchase of Spencer Gore's painting *The West Pier, Brighton*, the award for which was reported in last year's annual report.

One acquisition supported this year defies categorisation, Derek Jarman's Prospect Cottage speaks across and entwines a range of artistic genres; painting, film making, sculpture and garden design. Our support for the Art Fund's campaign ensures that Prospect Cottage, and its collection, is safeguarded and made available to the public through the imaginative management of Creative Folkestone and Tate. The garden, cottage and collection embody Derek Jarman's creative contribution and artists' residencies creating new work will be a key part of sharing this story.

The Fund also continues to support the acquisition of nationally important land; this year we funded the National Trust to acquire 168 hectares of land within the Stonehenge World Heritage Site, safeguarding the internationally important archaeology that was at risk of destruction due to arable farming. The acquisition will secure the majority of the Stonehenge landscape in conservation management and will transform public access to the landscape.

This year we supported a varied group of outstanding archival heritage; the acquisition by the Charles Dickens Museum of the Nason Collection brings into its collections an exceptional group of original Dickens' material. Ranging from letters, notebooks, playbills and original illustrations this was the most significant Dickens' collection remaining in private hands. It will now be available to researchers and the public at the Charles Dickens Museum.

Acquisition by the Bodleian Library of the papers of the Villiers Family, Earls of Clarendon, secured an exceptional political archive spanning the 17th to the 20th centuries. The acquisition reunites these family papers with the political archive purchased by Bodleian in 2012, ensuring that the archive as a whole is safeguarded and accessible.

Trustees were pleased this year to support the successful acquisition by the Brontë Parsonage Museum of Charlotte Brontë's *Young Men's Magazine*,

one of the miniature books written by the Brontë siblings for toy soldiers. The Museum had previously attempted to acquire the book at auction in 2011, with NHMF support, but had been unsuccessful, making their acquisition now especially rewarding. The Fund also supported Durham University to acquire the archive of John Lambton, First Earl of Durham, better known as Radical Jack. Lambton's archive documents his central role in the drafting of the Reform Bill. The archive illustrates the development of key reforms that paved the way for the establishment of a full democratic system in the UK, the acquisition will ensure it is publicly accessible for the first time. We also supported Pembroke College Cambridge to acquire the papers of the artist Barrie Cooke, which comprise 40 years of correspondence and collaboration with the poets Ted Hughes and Seamus Heaney. The papers reveal a creative and close triumvirate, containing unpublished work by both poets.

The Fund supported the purchase of an albumen print of Isambard Kingdom Brunel, the most famous image of the celebrated engineer. Acquired by the Brunel Museum the photograph was taken by Robert Howlett as he documented the construction of SS Great Eastern at the Millwall Iron Works. Brunel is pictured standing in front of the massive anchor chains of the vessel, the largest in the world when it launched in 1858.

The first of two items of furniture supported by the fund this year was the pietre dure table top acquired by William Paston in 1638 in Florence during his Grand Tour. Re-discovered through research for Norfolk Museum Service's exhibition of the Paston treasure, the table top is a rare example of early collecting, incorporating the Paston family coat of arms. Joining other items from the Paston treasure in the museum service collection the table top illustrates the influence of this pioneering collector. We also supported the acquisition of a secretaire designed in 1901 by Mackay Hugh Baillie Scott for Lakeland Arts. The secretaire was on loan for display at Blackwell, the Arts and Crafts' house designed by Baillie Scott, but was offered for sale at short notice. The secretaire will now remain on display at Blackwell, one of the few items there which were designed by the house's architect.

Whilst the Fund frequently supports items of archaeological importance, our funding of an Egyptian statue for Leicester City Museums Service was in recognition of its importance in the 19th century. An Egyptian 'pair' statue depicting husband and wife, Sutekhmose and Isinofret and dating from 1193–1185 BC, was a gift to the Thomas Cook company in the 1890s from the Egyptian government. Thomas Cook and his son John Mason Cook were pioneers of tourism, the gift recognised their role in opening up

Egypt to visitors. Sold following the administration of the Thomas Cook company the statue will illustrate the important history of the company in the museum's collection.

Finally this year we supported the purchase of a Triumph 20TR2 prototype car for the British Motor Industry Heritage Trust. A unique prototype, the car represents the early design stage in the development of Triumph's famous TR series of sports' car. The prototype broke the road car speed record in Jabbeke, Belgium in 1953 by reaching just over 125 miles per hour. Our support ensures it will now be publicly accessible at the British Motor Museum.

A list of standard grants awarded is shown on page 5. Total standard grants awarded came to £9.3million. In addition, we made awards of £1.2million to organisations as part of DCMS' Youth Accelerator Fund – DCMS asked us to make the grants on their behalf to groups that had already received funding from us as part of our Kick the Dust National Lottery grant programme.

We received grant-in-aid of £6.27million in the year (2018–19: £4.63million). £5million was our standard annual grant, but we received a further £1.27million from DCMS to operate its Youth Accelerator Fund – we gave awards totalling £1.2million during the year and held back £70,000 to cover our administrative costs; £15,000 of which will be consumed in 2020–21. We expect grant payments under this scheme will all be made in 2020–21.

The significant level of awards in the year when compared with our grant-in-aid meant that our operating deficit was much higher than the previous year, at £10.5million. This number is ameliorated by our grant-in-aid and income from our endowment fund, but our standard reserves fell by £2.5million. This was coupled with a sharp fall in the value of the endowment fund towards the end of the year. Overall, our total reserves fell by £7.2million.

The return on the endowment in 2018–19 was a rise of 4.1%. This year was easily on target to exceed that until the effects of the pandemic took effect on world stock markets. For the year, the value of the endowment fell by 13.5%. Stock markets have stabilised since the year-end, but recent higher volatility means that the value of the endowment can fluctuate significantly over short periods. As noted in the "future developments" section, we hope to use a significant part of the endowment fund to help support the heritage sector during these troubled times.

Cash balances rose in the year, a rise from £2.1million to £4million. Whilst we awarded a high level of grants in the year, we also liquidated over £2million from our endowment fund in the autumn and the date of an award and the date the grantee requires the funds are often months apart. Our investment panel

stresses the importance of holding cash to cover known grant liabilities because markets can be volatile; although we didn't quite manage that at the year-end as there were a large number of awards made at the end of March 2020. The substantial decline in the value of stock markets as the pandemic took hold shows the wisdom of that advice. We had to sell fewer endowment fund units to raise the £2million than if we were seeking the funds now. The value of grants paid in the year fell from £10.2million to £7.1million. Last year's high value reflected the late surge of payments for the Listed Places Of Worship programme (£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 award decisions on our website (although changes to the way in which information is uploaded to our website meant that we were not able to calculate a figure for this statistic for 2019–20). The Fund is achieving the great majority of its targets thereby demonstrating an effective service to our applicants and grantees (see table on page 8).

#### **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 2019–20 the average age of invoices paid was nine working days (2018–19: six working days). Over 91% of invoices were paid within 30 calendar days (2018–19: 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 2020, the figure was 41 days (2018–19: 35 days). The creditor days' 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 finishes and this results in a surge in invoices being received in early April.

#### **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 (or serviced office providers) of our 10 country and area offices are

Key performance indicators by year

	Target	2019–20	2018–19	2017–18	2016–17	2015–16	2014–15
Application processing times (months)							
– urgent applications	3	1.2	0.6	1.2	1.0	0.9	0.7
– non-urgent applications	6	2.6	0.7	2.3	4.7	0.9	1.4
Publicising decisions (working days)							
– post decisions on website	14	See note below	14	20	20	20	10
Grant payment (number of working days after payment request)							
– Standard grants	15	12	11	8	2	4	3
– LPOW Roof Repair Fund	10	n/a	3	4	5	2	n/a

Note: We no longer collect this information. 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 2020–21 with the obvious exception of the LPOW grant payment target.

Sustainability reporting

Area	2019–20	2018–19	2017–18	2016–17	2015–16	2014–15
Greenhouse gas emissions – scopes 1, 2 & 3 which incorporates business travel including international air and rail (tonnes CO <sub>2</sub> equivalent)						
	383	365	410	417	635	591
Estate energy – consumption (mkWh)	1.1	1.1	0.9	0.7	1.1	1.1
– expenditure (£)	588,794	476,020	437,986	488,315	488,361	429,425
Estate waste – amount (tonnes)	150	23	26	23	28	26
– expenditure (£)	47,739	24,421	25,908	19,115	13,268	14,095
Estate water – consumption (m <sup>3</sup> )	4,820	3,455	3,927	4,040	4,350	4,889
– expenditure (£)	7,391	5,787	10,703	12,089	7,413	11,825

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

Area per FTE	2019–20	2018–19	2017–18	2016–17	2015–16	2014–15
Greenhouse-gas emissions – scopes 1, 2 & 3 which incorporates business travel including international air and rail (tonnes CO <sub>2</sub> equivalent)						
	1.4	1.2	1.4	1.4	2.3	2.3
Estate energy – consumption (kWh)	4,012	3,530	2,899	2,524	4,105	4,134
– expenditure (£)	2,198	1,581	1,470	1,648	1,744	1,639
Estate waste – amount (tonnes)	0.6	0.1	0.1	0.1	0.1	0.1
– expenditure (£)	178	5	87	65	47	54
Estate water – consumption (m <sup>3</sup> )	18	11	13	13	16	19
– expenditure (£)	28	19	36	41	26	45

prepared to provide us with figures for kilowatt hours of gas and electricity used or our water consumption. 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 estates' 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 energy consumption for most of our offices.

The second table (on this page) 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. Our FTE number does not

include temporary staff and we have utilised a higher number of temporary staff in 2019–20 in both our National Lottery distribution and other activity. 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 above covers all the activities of NHMF.

#### *Summary of performance*

Our greenhouse gas emissions have risen slightly in 2019–20 on a gross basis and also when looking at the numbers on an FTE basis.

NHMF had control over only one of the properties that it occupied, which was its headquarters at Holbein Place in London. However, between June–September 2019, London-based staff relocated to a smaller leased floor in St Katharine Docks, also in London. This meant that for the first six months of the year, we were occupying two large offices in London as we made our new office fit for head office staff to move into. Inevitably, this will have had a negative impact on the amount of carbon dioxide equivalent that we generated.

In all of the 11 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 this last year we have relocated a further four of our country and area offices (including our head office) into smaller premises or serviced offices, which will reduce consumption over the medium term – three such moves happened in 2018–19 and this is the reason for the fall in emissions when compared with earlier years. However, our head office move also required fit-out works, resulting in additional waste figures.

As a part of our business transformation programme, we have implemented changes that should result in further reduced carbon emissions. These include a move from on-premise to cloud computing, improved 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.

In conjunction with our investment managers, we invest in a fund, the Cazenove Charity Multi-Asset Fund, which targets reduced carbon dioxide equivalent emissions. The Charity Multi-Asset Fund equity portfolio has 20% less carbon emissions than the

MSCI world (the benchmark portfolio), which is equivalent to 27 megatonnes of carbon dioxide; our share of that is the equivalent of the energy usage of 143 homes per annum. In line with our corporate priority for 2020–21 and beyond of environmental sustainability, trustees have agreed to shift the investments in our endowment fund to a different Cazenove fund which is more targeted towards responsible investing that will further reduce our impact.

#### *Greenhouse gas emissions*

Direct energy emissions related to gas used in boilers operated by NHMF and emissions given off through our use of air conditioning in our London headquarters through part of the year, April–September 2019. 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/publications/greenhouse-gas-reporting-conversion-factors-2019](http://www.gov.uk/government/publications/greenhouse-gas-reporting-conversion-factors-2019). The most recent factors available were published in 2019.

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 offices via their service charges. 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 was significantly higher in 2019–20. This was simply due to the office relocations that took place and the disposal of much of our paper archive (the paper archive has been replaced by digitised records.). This was particularly the case in

London where we moved from a six-floor building to a much smaller single floored office. The increase was anticipated in last year's annual report and we expect the figure to settle back nearer to the long-term average in 2020–21.

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. With the exception of a major clear-out related to the changing of our head office, 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 8.

Only the Royal Borough of Kensington & Chelsea invoiced us separately (when we were based at Holbein Place), 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 has plummeted in recent years 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. Furthermore, our new offices are smaller and offer far less storage space thereby persuading staff to utilise electronic rather than paper storage. The result was a two-thirds' reduction in paper usage.

Our country and area 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 or the London Borough of Tower Hamlets 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 rose significantly in 2019–20. For the reasons given above, we were occupying two head offices for half of the year and so higher consumption is to be expected. Where possible we persuade our landlords/serviced office provider 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.

We have to accept that the weather and for 2020–21 only, I hope, the coronavirus-related lockdown 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 2020

## 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

René Olivieri

Interim Chair from 1 January 2020

Sir Peter Luff

to 31 December 2019

##### Trustees

Maria Adebawale-Schwarte <sup>1</sup>

Baroness Kay Andrews OBE

Anna Carragher

to 6 October 2019

Jim Dixon

Dr Claire Feehily <sup>1</sup>

Sarah Flannigan

Perdita Hunt DL, OBE <sup>1</sup>

Ray Macfarlane

from 1 April 2020

Steve Miller

to 17 February 2020

Dr David Stocker

Dr Tom Tew

to 19 January 2020

##### Chief Executive

Ros Kerslake OBE

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

Details of other senior managers can be found in the remuneration and staff report starting on page 22.

The gender split of our staff (including those on fixed term contracts) working on exchequer-related activities and our trustees at 31 March 2020 on a headcount basis was as follows:

	Male	Female	Total
Trustees	3	6	9
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

Applications to NHMF have naturally paused as COVID-19 impacted on normal business, and we are now considering the best means of response to the crisis. We expect that our normal grant-making will be suspended for 12 months while we work on our post-COVID response (although we will allow applications where there is a serious risk of loss to outstanding heritage). Our current grant-in-aid for 2020–21 is £5million and we will also liquidate a substantial part of the endowment fund to create funding that will be available to heritage at serious risk of loss post-COVID. We are working on the detail of this and also working with stakeholders across the UK in developing our response. The Memorial Fund response will be in addition to the £50million emergency package we have set up using our National Lottery – and which will be open until the end of July 2020. Please see The National Lottery Heritage Fund accounts for more details of this.

As a part of our sustainability agenda, we are switching the investment of our endowment fund from the Cazenove Capital Charity Multi-Asset Fund to the same firm's Responsible Multi-Asset Fund. The investment policy involves screening aligned with common charity concerns; environmental, social and governance analysis; and with engagement and voting embedded in the equity investment process. The long-term target for investment returns will be unchanged following the transfer.

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 are undertaking 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. We are taking the opportunity to refresh the strategy and develop our planning for the follow-up strategy. We will judge the impact of the pandemic on the heritage sector and use these observations to set a long-term strategy. Utilising our grant-in-aid, our National Lottery funding and other sources of money we will set a strategy that meets the needs of the sector in supporting the UK's heritage.

### 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 National 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 Digital, Culture, Media and Sport (DCMS) 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:

- i) observe the accounts' direction issued by the Secretary of State for DCMS, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis
- ii) make judgements and estimates on a reasonable basis
- iii) state whether applicable accounting standards, as set out in the FREM, have been followed and disclose and explain any material departures in the financial statements
- 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. Whilst the Chief Executive was on long-term sick leave for part of the year, the Executive Director, Business Delivery, was

made acting Accounting Officer. Their relevant responsibilities as Accounting Officer, including their 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. During a period of absence from December 2019 to 30 April 2020, Eilish McGuinness acted as Accounting Officer.

Following a Governance Review in 2019–20 we made a number of changes in our governance and internal controls 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 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 corporate governance in central government departments: code of good practice, which was issued in 2017 by the Treasury and the Cabinet Office

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 Review

As outlined in the report last year we commissioned an independent review of our internal governance in 2019–20. Following a procurement exercise, we appointed Campbell Tickell to undertake the review. They undertook the review in the first quarter of the year and reported to the Board in July 2019. The Board expressed support for most of the findings and recommendations and the Legal & Governance team prepared an implementation plan for the main recommendations. This has subsequently been reviewed several times by the Board who continue to track the progress in delivering the recommendations.

The main areas of recommendations adopted were:

- move to a smaller number of trustees in practice (9 or 10)
- have trustees chair English area committees so that these have similar arrangements with the Scotland, Northern Ireland and Wales committees
- develop skills' matrices for trustees and committee members covering business, corporate governance and heritage skills
- refresh the terms of reference for the Board and its committees
- review, in conjunction with DCMS, the remuneration of trustees to assist in developing improved plurality and diversity across trustees
- to undertake a similar internal review across committee members with the same objective
- improve stakeholder engagement and mapping and improve the integration of trustees and committee members into these
- improve induction and diversity, equality and inclusion training as well as performance appraisals for trustees and committee members
- close down the Finance, Staffing and Resources Committee and move its functions to the Board and the Executive
- create a Nominations and Remuneration Committee to oversee trustees' roles, remuneration and support appointments

### Governance structure

The governance structure in NHMF during 2019–20 is set out in the diagram below. The Board and its sub-committees remained as described, although the Finance, Staffing and Resources Committee ceased to operate from 31 March 2020 following a recommendation in the Governance Review.



The previous Senior Leadership Team was replaced in the year with a new Strategy and Performance Group (see page 16).

### 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 Chief Executive and the executive directors. All Board meetings held in 2019–20 were quorate. Sir Peter Luff was Chair of the NHMF until 31 December 2019 and throughout that period regular liaison meetings were held between the chair, the Chief Executive and senior staff. René Olivieri took over as interim Chair from 1 January 2020 – similar arrangements remained in place from that date.

The Board is legally constituted up to a maximum of 15 trustees including the chair. In 2019–20 one new trustee was appointed and four trustees retired.

These changes were approved by our sponsor department – the DCMS and the Prime Minister (as trustees appointments fall within the remit of the Prime Minister).

Following a recommendation from the Governance Review it was decided to reduce the number of trustees (in practice) to nine or ten from 2020–21. Recruitment campaigns will reflect that move over the next year or two.

The overall attendance rate of trustees at Board meetings was 79%. 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 2019–20 was as follows:

Trustee	Eligible meetings	Meetings attended
Sir Peter Luff <i>to 31 December 2019</i>	6	6
René Olivieri	8	7
Maria Adebowale-Schwarte	8	7
Baroness Kay Andrews OBE	8	4
Anna Carragher <i>to 6 October 2019</i>	4	4
Jim Dixon	8	8
Dr Claire Feehily	8	7
Sarah Flannigan	8	8
Perdita Hunt DL, OBE	8	6
Ray Macfarlane <i>from 1 April 2020</i>	8	8
Steve Miller <i>to 17 February 2020</i>	6	6
Dr David Stocker	8	8
Dr Tom Tew <i>to 19 January 2020</i>	6	5

#### Board composition

Of the 13 trustees who attended the Board throughout the year, 46% were female and 54% were male. One (8%) came from an ethnic minority.

#### Board conflicts of interest

At the beginning of each Board meeting, all trustees and staff are asked to declare any potential conflict of interest. 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 Directors of Business Delivery and Business Services – other senior staff attended as required. The committee was supported and serviced by the Fund’s Legal & Governance team. The Fund’s external auditors (the National Audit Office) and internal auditors (BDO) also attend the meeting. The committee holds 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.

During the year BDO were re-appointed as internal auditors in a joint procurement alongside UK Sport and Sport England. The committee agreed a multi-year audit strategy with BDO upon their appointment and the reviews carried out in 2019–20 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:

- travel and subsistence
- key financial controls
- the development of the new Investment Management System
- the digital campaign
- General Data Protection Regulation
- succession planning
- culture change

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 2019–20, in addition to the above reports and accounts, the committee considered the following:

- the arrangements for continuing the risk management processes at departmental level
- deep-dive examinations of risk and the delivery of major projects and activities across the Fund
- fraud and alleged fraud cases
- procurement arrangements including any exceptions to normal procurement tenders

In November 2019 our grant management system had an outage for five working days. The external portal for customers remained in operation. The outage was caused by a transition to a cloud-based operating environment. No data was lost or impaired, and no significant disruption to applicants or grantees was experienced. However, we commissioned an independent review of the outage. This was reviewed by the committee and the Board. The recommendations were accepted by the Executive and an implementation plan for these changes adopted.

Attendance at committee meetings throughout 2019–20 was as follows:

Trustee	Eligible meetings	Meetings attended
Dr Claire Feehily <i>Chair</i>	4	4
Maria Adebowale-Schwarte	4	3
David Michael	4	4
Steve Miller <i>to 17 February 2020</i>	4	4
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 was chaired by a trustee.

The Chief Executive attended each committee meeting as a member. The Executive Directors of Business Delivery and Business Services attend meetings, and other senior staff attend as required. The committee was supported and serviced by the Legal & Governance team.

The committee had 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 2019–20 Business Plan.

The committee also exercised an overview of the Business Transformation programme throughout the year receiving monthly dashboard updates.

The committee meeting minutes were shared with the Board. The committee chair orally updated the Board on committee business and decisions.

Attendance at committee meetings throughout 2019–20 was as follows:

Trustee	Eligible meetings	Meetings attended
René Olivieri <i>Chair</i>	3	3
Steve Blake	3	2
Sarah Flannigan	3	3
Perdita Hunt DL, OBE	3	2
Sir Peter Luff <i>to 31 December 2019</i>	3	3

Following the recommendation of the Governance Review the committee was wound up in March 2020.

#### Delegated grant decision making

In 2019–20 the Board delegated some decision making for grants to a subset of trustees acting as Board panels. This covered decisions for the following grant programme:

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

We expect this arrangement to conclude in 2020–21 when the Parks for People programme ends its decision-making phase – the projects will continue for a number of years.

The trustees have delegated their grant decision making responsibilities for certain types and values of National Lottery awards to country and, in England, area committees. Following our internal re-organisation that came into effect on 1 April 2019, there are six of these committees (three countries and three English areas) and each contained 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 area committees met with the Board Chair and the Chief Executive, along with senior staff during the year. 2020–21 will continue as a transitional year with new committee members and trustees expected to be appointed. From 2021–22, each country and area committee will be chaired by a trustee.

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.

Trustees have also delegated grant decision-making for grants under £100,000 to staff, specifically country and area directors. 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 continued 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 also took advantage of the 25th anniversary of The National Lottery in autumn 2019 to promote the good causes for heritage from The National Lottery.

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 the picture improved – indeed 2019–20 saw income increase, and we have greater confidence on income over the next few years. We have, though, continued to prudently factor in some risk into those projections to manage a down side position if that were to develop. We continue to monitor the risk of the National Lottery licence competition over the next year or two.

### Executive and Strategy & Performance Group

The Board delegates day-to-day management to the Chief Executive. Previously the Chief Executive was supported by a Management Board consisting of all directors and deputy directors. In line with our re-organisation, this changed with effect from April 2019.

An Executive consisting of the Chief Executive and the three executive directors for each department came into effect. This Executive is responsible for wider strategic management issues and it also acts as the Programme Board for the Business Transformation programme (see below). The Executive meets weekly.

The Strategy & Performance Group (SPG) consists of senior directors and staff across all three departments and has responsibility for horizon scanning, day to day performance management and corporate planning. The SPG met quarterly and in two of these meetings the Executive attended.

Each executive director provides a monthly report to the Board on activities and issues within their remit.

### Organisational design and structure

During the year the Chief Executive operated a three department structure of:

- Business Innovation & Insight (strategy, policy, data and insight along with marketing and communications)
- Business Delivery (operational delivery)
- Business Services (support functions)

The annual operating plan – the Business Plan – is developed each year alongside financial budgets and investment 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 sets 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.

### 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.

In 2019–20 we refreshed the strategy and agreed five outcomes for the successful delivery of the strategy these are:

- maximise the impact and value of heritage as a powerful and positive force on people's lives, places across the UK and our environment
- our investment, operations and partnerships will drive action to tackle the climate and ecological emergency
- heritage will involve a wider range of people and be a safe space to explore our past and create better understanding for our present and future
- the UK's heritage will be in a strong position to take advantage of opportunities and respond to challenges by being enterprising, forward looking and adaptable
- our people in the Fund will be supported and empowered to deliver the changes we want to see

The year also started to see the first stages of diversifying our income – there have been discussions with the Welsh Government for environmental heritage projects – as well as diversifying our investment approaches with the creation of a joint impact fund for arts and culture combining fellow National Lottery distributors and private sector capital.

We also undertook a substantive piece of work on our powers and authorities and we will be working alongside colleagues in DCMS in taking this forward during 2020–21.

#### **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 are some of those changes. The climate and ecology emergency is another. 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. 2018–19 saw preliminary planning and initial delivery for this work and 2019–20 has seen a year of full delivery and implementation.

The programme's goals are to deliver and support:

- the new three-year corporate strategy including a refresh in 2019–20
- a simpler, more customer-focused National Lottery Strategic Funding Framework
- a radically improved grant management process and system in 2020–21
- 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 aligned 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 and digital transformation)

In 2019–20 we delivered:

- new organisational design across the Fund
- IT transformation with the roll out of Office365 technology, new cloud based platforms and agile/flexible working arrangements for all staff
- mobile technology for all staff
- increased investment in new tools, skills and training for our staff
- new governance arrangements across the Fund following our Governance Review
- digitisation of all our hard copy records
- our new branding and identity as The National Lottery Heritage Fund for our National Lottery distribution activities
- refresh of our website, guidance and forms

- moved several office locations to flexible serviced offices
- moved the London office to a new site in St Katharine Docks
- created a new digital team to explore customer insight, understanding and design of our digital services
- continued to move roles and functions out of London to support the government's Place of Growth agenda
- a refresh of our corporate values for support a new behavioural framework which will lead in 2020–21 to a new recruitment framework and performance management system

### 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 2019–20.

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 2019–20 and continued to reflect greater appetite for business change and transformation. The Board also recognised the risks and challenges facing NHMF in 2019–20 especially in its National Lottery distribution role – these are expected to evolve from the principal risks for 2019–20 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. This will be important to ensure that funding from 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 to whom we give grants 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 2019–20, NHMF considered the following to be the most significant areas of risk:

- National Lottery income projections and managing the licence renewal in terms of impacts on income
- the challenges posed by the climate and ecological emergency
- developing the new investment management systems
- understanding the implications, opportunities and challenges of the departure of the UK from the European Union
- ensuring our data and insight is used to optimal effect
- maintaining our leadership role in the heritage sector across the UK
- ensuring we achieve cultural changes across the Fund to support the changes we have to deliver

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 2019–20.

### Approach to fraud and information risk

NHMF has a fraud policy that is reviewed on an annual basis. All staff in NHMF undertake Fraud Awareness training. This focusses 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.

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.

During the year we undertook significant work to refresh our administration 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 2020–21.

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 of their induction. We undertook extensive planning and preparations for the new General Data Protection Regulation (GDPR) provisions brought in recently and have satisfactorily met the obligations and received a positive Internal Audit review of these arrangements.

In December 2019 we again achieved Cyber Security Plus accreditation.

We also comply with the government guidance on transparency of spend, contracts etc. In 2019–20 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 15 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, actual grant 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 2019–20 and indeed used this in modelling for our National Lottery income planning scenarios and assumptions. We reviewed the key ratios in 2019, agreed to adjust these to take into account the National Lottery income projections and the need to align income, commitments and reserves.

### 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 its 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 2019–20, although not as much as in 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 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 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.

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 Strategy & Performance Group meet 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 2020.

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 on the perceived 'direction of travel' with regard to the number of recommendations deriving from their internal audit work. This suggested a slight deterioration in the standard of our processes. I believe that this is to be expected during a period of considerable re-organisation, but I will be aiming for an improvement in this statistic during 2020–21.

The internal auditors upon re-appointment produced an overall audit strategy. 2019–20 covered the first 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 2019–20 and recommendations that were due to be implemented in 2019–20 have been 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, executive 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.

In 2018 we introduced a new Code of Conduct 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.

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. This cycle has been completed in 2019–20.

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.

From December 2019 to 30 April 2020 I had a leave of absence from the Fund. In that period the executive directors, with support from the trustees, undertook my duties as Chief Executive and Eilish

McGuinness undertook my duties as Accounting Officer, she received support and induction from colleagues at DCMS as well as the Executive Director (Business Services) in his capacity as Finance Director. I am satisfied that all such duties were performed properly and effectively during my absence.



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

8 July 2020

## 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 country and area 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 below. 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.

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

	2019–20 £'000	2018–19 £'000
René Olivieri <i>Interim Chair from 1 January 2020</i>	20–25	10–15
Sir Peter Luff <i>Chair to 31 December 2019</i>	30–35	45–50
Maria Adebowale-Schwarte <i>from 16 May 2018</i>	5–10	5–10
Baroness Kay Andrews OBE	20–25	20–25
Anna Carragher <i>to 6 October 2019</i>	10–15	20–25
Sir Neil Cossons OBE <i>to 31 January 2019</i>	0	5–10
Dr Angela Dean <i>to 12 June 2018</i>	0	0–5
Jim Dixon	5–10	5–10
Dr Claire Feehily	10–15	10–15
Sarah Flannigan <i>from 16 May 2018</i>	10–15	5–10
Perdita Hunt DL, OBE	5–10	5–10
Ray Macfarlane <i>from 1 April 2020</i>	20–25	0
Steve Miller <i>to 17 February 2020</i>	5–10	5–10
Richard Morris OBE <i>to 16 May 2018</i>	0	0–5
Atul Patel MBE <i>to 16 May 2018</i>	0	0–5
Dame Seona Reid DBE <i>to 31 March 2019</i>	0	20–25
Dr David Stocker <i>from 16 May 2018</i>	10–15	5–10
Dr Tom Tew <i>to 19 January 2020</i>	5–10	10–15

## Report of the Trustees and Accounting Officer

### Remuneration of employees (audited information)

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

	Salary 2019–20 £'000	Salary 2018–19 £'000	Bonus 2019–20 £'000	Bonus 2018–19 £'000	Pension benefits accrued during 2019–20 £'000	Pension benefits accrued during 2018–19 £'000	Total 2019–20 £'000	Total 2018–19 £'000
<b>Ros Kerslake OBE</b> Chief Executive and Accounting Officer	140–145	135–140	0	5–10	56	53	195–200	195–200
<b>Eilish McGuinness</b> Executive Director: Business Delivery	105–110	85–90	0	5–10	182	12	285–290	100–105
<b>Judith Cligman</b> Director of Strategy and Business Development to 31 January 2019	n/a	80–85*	n/a	0	n/a	7	n/a	85–90
<b>Colin Bailey</b> Executive Director: Business Services	110–115	100–105	0	5–10	44	41	155–160	150–155
<b>Louise Lane</b> Director of Communications to 31 January 2019	n/a	70–75*	n/a	0	n/a	40	n/a	110–115
<b>Helen Coley-Smith</b> Director of Business Transformation to 31 August 2018	n/a	45–50*	n/a	0	n/a	18	n/a	60–65
<b>Isabel Hunt</b> Executive Director: Business Innovation & Insight from 4 November 2019	45–50*	n/a	0	n/a	19	n/a	65–70	n/a

	Real increase in pension and lump sum £'000	Total accrued pension at age 60 and lump sum £'000	Cash Equivalent Transfer Value (CETV) at 31/03/20 £'000	CETV at 31/03/19# £'000	Real increase in CETV funded by NHMF £'000
<b>Ros Kerslake OBE</b> Chief Executive and Accounting Officer	2.5–5	10–15	209	146	46
<b>Eilish McGuinness</b> Executive Director: Business Delivery	7.5–10 and 20–22.5 lump sum	40–45 plus 115–120 lump sum	885	685	165
<b>Judith Cligman</b> Director of Strategy and Business Development to 31 January 2019	n/a	n/a	n/a	1,000	n/a
<b>Colin Bailey</b> Executive Director: Business Services	2.5–5	10–15	201	159	27
<b>Louise Lane</b> Director of Communications to 31 January 2019	n/a	n/a	n/a	551	n/a
<b>Helen Coley-Smith</b> Director of Business Transformation to 31 August 2018	n/a	n/a	n/a	41	n/a
<b>Isabel Hunt</b> Executive Director: Business Innovation & Insight from 4 November 2019	0–2.5	0–5	15	n/a	11

Notes to the remuneration of employees tables:

\* The full year equivalent of Helen Coley-Smith's salary in 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. The full-year equivalent of Isabel Hunt's salary in 2019–20 was in the band £120,000 to £125,000.

# 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. Bonuses are no longer being paid to senior management.

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.

Trustees' remuneration was allocated between NHMF and its National Lottery distribution activities on the basis of 1%:99%. The total remuneration of trustees in 2019–20 was £183,147 (2018–19: £210,289). 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 executive directors.

2019 saw the Fund introduce a new organisational structure which brought in three new departments: Business Delivery, Business Services and Business Innovation & Insight. As a result of this, our senior management structure correspondingly also changed with the creation of three new executive director posts reporting directly to the Chief Executive. All other director level posts now report into the new executive directors. We also brought in a new pay and grading structure for all staff and, later in the year, a new pay policy. As a result of these changes we also brought to an end the opportunity for performance based annual pay rises for senior staff due to changed expectations of these roles. The decision to consolidate potential bonuses into salaries was also taken in recognition of the new responsibilities that the executive directors took on following the departmental restructuring and the expansion of their duties. The three executive directors, and the Chief Executive Officer, now receive a flat-rate salary, which can only be revalorised as part of the annual Fund pay award. Performance is still assessed annually but not linked to salary review.

Bonuses paid to senior management in the comparative year 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 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 Carli Harper-Penman, who was acting Executive Director, Business Innovation & Insight until 7 November 2019, 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% (2018–19: 99%:1%).

In December 2018 Carli Harper-Penman was engaged as interim Executive Director, Business Innovation & Insight. She was not an employee of the Fund; 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. Carli left on 7 November 2019.

### 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 (including the Chief Executive) and the median remuneration of our workforce.

The annualised banded remuneration of the highest paid executive director in both 2018–19 and 2019–20 was £140,000 to £145,000 including bonus (for 2018–19 only). This was about 4 times (2018–19: 4.9 times) the median remuneration of the workforce, which was £36,000 (2018–19: £29,043). There were no employees who received remuneration in excess of the highest paid executive director. Remuneration ranged from £18,000 to a banding of £140,000 to £145,000 (2018–19: £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 2% of the payroll.

Total remuneration includes salary, non-consolidated performance-related pay and benefits-in-kind. It does not include severance payments, employer pension contributions and the cash equivalent transfer value of pensions.

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	<b>5.5</b>
50th percentile	<b>4.0</b>
75th percentile	<b>3.5</b>

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

	Ratio
25th percentile	<b>1:6.8</b>
50th percentile	<b>1:4.9</b>
75th percentile	<b>1:4.3</b>

### 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.

On 1 April 2019, the Fund implemented a major organisational restructure which saw the creation of new departments, new teams and new roles to better deliver the Fund's services. No redundancies

were made but during this period of change a small number of colleagues requested voluntary exits. Staff who left before 1 April 2019 were declared in the Annual Report for 2018–19, but there were a small number of residual restructuring actions that were taken in 2019–20 and these are shown below. All actions were voluntary; i.e. at the request of the individuals themselves, but were judged to be in the interests of the Fund. All requests were approved by the Fund's executive team and the Cabinet Office and managed in accordance with the requirements of the Civil Service Pension Scheme.

Payment details are shown below. Levels are determined by the Civil Service Compensation Scheme not by the Fund. Please also note that all of the costs below will be recovered as a result of wider actions and cost savings achieved as part of the organisational restructuring.

There were nine in 2019–20 (2018–19: seven) in the following bands:

	2019–20 Number	2018–19 Number
£5,000–£9,999	<b>1</b>	1
£10,000–£14,999	<b>4</b>	0
£30,000–£34,999	<b>1</b>	0
£35,000–£39,999	<b>1</b>	1*
£40,000–£44,999	<b>1</b>	1
£50,000–£54,999	<b>1</b>	1*
£55,000–£59,999	<b>0</b>	1*
£75,000–£79,999	<b>0</b>	1*
£90,000–£94,999	<b>0</b>	1
<b>Total</b>	<b>9</b>	<b>7</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)

	2019–20 £'000	2018–19 £'000
Salaries	<b>101</b>	78
Employer's NI payments	<b>11</b>	7
Payments to pension schemes	<b>12</b>	14
Temporary staff costs	<b>15</b>	6
	<b>139</b>	<b>105</b>

Additional costs of £15,601,000 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:

	2019–20 Number	2018–19 Number
Grant applications	2	2
Finance and corporate services	0	0
Strategy and business development	0	0
Communications	0	0
	2	2

The above figures are disclosed as full-time equivalents and include an average of no staff on a fixed term contract. Additionally an average of 239 permanent staff and 27 on fixed term contracts were employed on National 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 £27 (2018–19: £23) 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. During 2018–19, the panel was reduced to one supplier, Legal & General. 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 is one member of staff working on NHMF business with a partnership pension account.

One member of staff retired early on health grounds during 2019–20; this person worked entirely on The National Lottery Heritage Fund activities.

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 2019–20, employer’s contributions of £12,255 (2018–19: £14,278) were paid to PCSPS and alpha at the rates set out as follows:

Salary in 2019–20	% in 2019–20
£23,000 and under	26.6%
£23,001–£45,500	27.1%
£45,501–£77,000	27.9%
£77,001 and above	30.3%

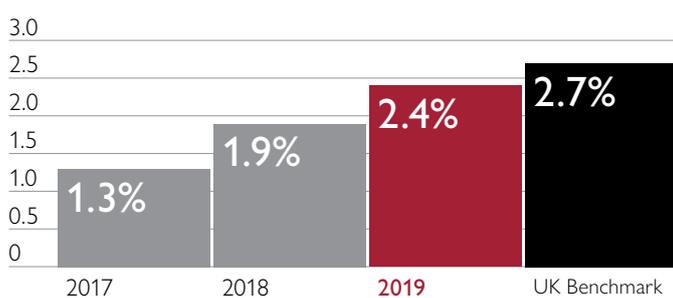
### Absence management

Sickness absence levels across the Fund increased in 2019 to 2.4%. This is higher than previous years but still lower than the comparable public sector UK benchmark. A significant proportion of this increase was due to a small number of new long term absences in 2019 (which had a disproportionate impact on overall levels due to the relatively small numbers of staff in the Fund). There was also a small increase in absence related to the introduction of our new organisational restructure in 2019.

The increase in sickness levels is also partly attributable to better absence reporting. In late 2018 we introduced a new HR management information system which made reporting sickness easier for staff and monitoring sickness easier for managers.

The Fund has extensive wellbeing frameworks in place for staff who are unwell – including additional facilities put in place to support staff during our organisational restructuring in 2019. We have expanded this provision further and we have redesigned our wellbeing and attendance management policies which are currently under discussion with our Trade Union representatives. Wellbeing support is one of our core people management pillars and we will be developing this further as part of a new People Strategy in 2020.

### Absence levels



NB: The UK Benchmark level quoted in the above chart is the national public sector average taken from the Government Office of National Statistics.

### Employee engagement and consultation

We continue to regularly inform and engage our staff in discussion on our strategic direction and operational performance.

All staff receive daily news digests and weekly newsletters updating them with news across the Fund and we have active, popular social media discussion groups.

The Fund also formally meets every quarter with its Trade Union partners (FDA and PCS). In 2019 we also initiated monthly informal meetings between the Human Resources' team and the Trade Unions to improve opportunities for dialogue and joint working.

We chose not to conduct a full staff survey in 2019 because we recognised that a single survey would not allow us to understand the changing views of staff following a period of significant organisational restructuring. Instead we continued to run a number of 'pulse' snapshot surveys to help us explore staff views. We also ran a number of surveys to explore "lessons learned" from the restructuring, which we published in March 2020.

In addition, we ran a major series of cultural events in 2019–20 as part of a project to review and revise our values. This involved an extensive campaign of workshops, newsletters, blogs and other actions including staff surveys. Our new revised values were shared with staff as part of the design process to seek their views and were approved by our Board in February 2020. These are being rolled out through various staff immersion events and will be being translated into a new behavioural framework. To support this work we created a new network of Culture Champions to work closely with local managers and act as a key link between local teams and central functions such as Human Resources.

Also, as part of a mid-point review of our corporate strategy, in 2019 we engaged staff across the Fund in a series of discussions, workshops, focus groups and surveys on our strategic goals. These were held to re-evaluate existing priorities and consider new opportunities to better provide our services to support the heritage sector. These work has led to a revised corporate strategy 'refresh' which is being incorporated into our business planning for 2020–21.

### Equality and diversity and employment monitoring

"Diversity and inclusion are part of our values."

Through our investment and expert advice the Fund recognises its role as a champion of diversity and we have newly defined strategic ambitions to better embed diversity throughout all areas of our work. We believe that aspirational leadership is crucial in driving this work. We can do this externally by proactive action plans and ensuring inclusion is a key part of our funding assessment, but we also plan to drive this internally by removing barriers to workforce diversity and increasing staff awareness and understanding. In 2019 we launched a new Diversity, Equality and Inclusion Strategy, a new Workforce Diversity Action Plan and a new Disability Action Plan. We also published a new Workforce Diversity Statement and have designed new policies for Equal Opportunities, Dignity at Work, Dispute Resolution

Value	Workforce Diversity Focus
<b>Inclusive:</b> of all aspects of heritage, and the interests of all people and communities	We celebrate our inclusive working environment that promotes fairness, equality and diversity and recognise that our external goals to drive inclusion in heritage need to be twinned with internal actions to increase our workforce diversity.
<b>Ambitious:</b> and enterprising for our people, our communities and our sector	We recognise the need for new, proactive actions and strategies to improve our future workforce diversity – looking externally through re-focused recruitment actions but also internally through talent management and succession planning.
<b>Collaborative:</b> by working in and learning from partnerships	We recognise the power of harnessing a diverse workforce which works collaboratively towards our core goals. We value individual differences and the contributions of all and together we are stronger for it.
<b>Trusted:</b> for our integrity, judgement and expertise	It is essential our people, customers and stakeholders trust our vision and processes. We support fairness, dignity and respect for all. We understand that recruitment, career development, learning and support must be fair and objective.

(and more) which are under review with our Trade Union representatives.

In 2019 we also reviewed and refreshed our values. Diversity and inclusion remain central to how we work (see table above).

#### Workforce Diversity Analysis

The information contained in the charts below shows the picture of workforce diversity across the Fund, looking through separate lenses for ethnicity, gender, sexual orientation and disability. Comparable benchmark data is also shown (based on UK working population levels).

We recognise that in some areas our workforce is not diverse compared to national levels and we acknowledge there are under-represented staff groups. We also recognise wider heritage sector trends and barriers to entry, unconscious or conscious, that all impact on the shape of our workforce. It is important we understand our workforce data better and we launched a new HR management information system in 2018 to assist us with this work and allow staff direct access to their personal records so they could see and amend their personal data. Although we already undertake monitoring of our recruitment data, in 2020 we will be launching a new I-Recruit system which will give us greater understanding of candidate data and recruitment trends.

We have developed a new Workforce Diversity Action Plan to improve diversity levels in our workforce and invest in new training and new resources. We aim to be an employer of choice for all people considering careers in the heritage sector and we recognise that to lead the heritage sector, we need a diverse workforce able to meet all the diverse demands of that challenge. We plan to create a workplace where diverse talent thrives, where understanding and promoting diversity becomes embedded and second nature.

We will do this by working towards six core goals:

Goal 1: To improve diversity in recruitment

Goal 2: To improve the management of workforce diversity

Goal 3: To improve career development for under-represented staff

Goal 4: To improve inclusion through enhanced staff support

Goal 5: To improve diversity through apprenticeships and work placements

Goal 6: To improve workforce diversity governance

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

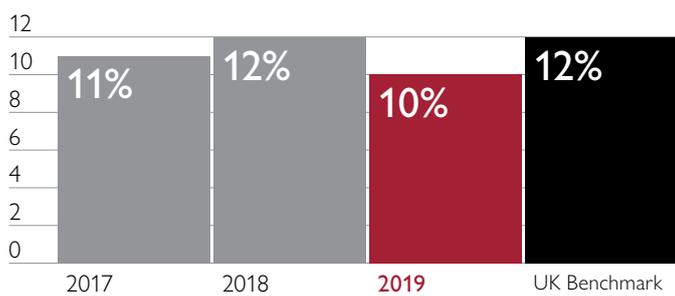
NHMF spent £2,751 on consultants in 2019–20 (2018–19: £8,006). NHMF has used the definitions of consultancy contained within annex 6.1 of the Cabinet Office controls guidance: version 4.0.

#### Whistleblowing

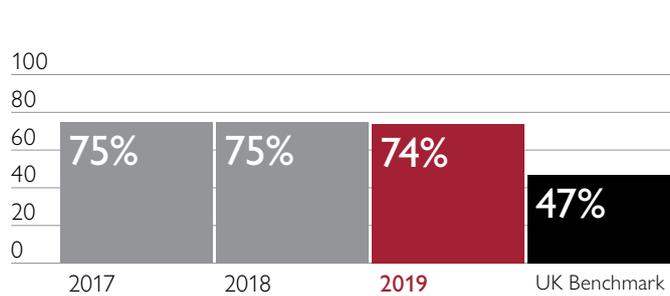
The Fund has a clear and accessible Whistleblowing Policy designed to enable staff to raise concerns and to disclose information that the individual believes shows malpractice or impropriety. This covers concerns that are in the public interest and includes the following (non-exclusive) matters:

- 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

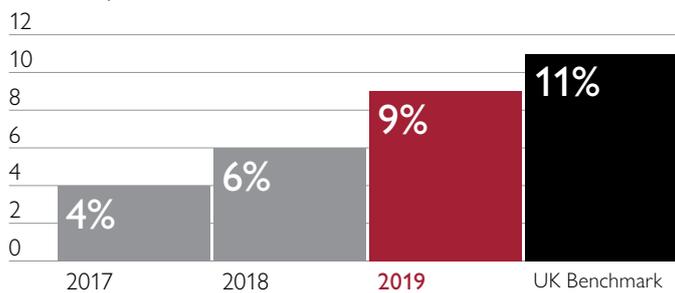
Ethnic diversity:  
BAME in the workforce



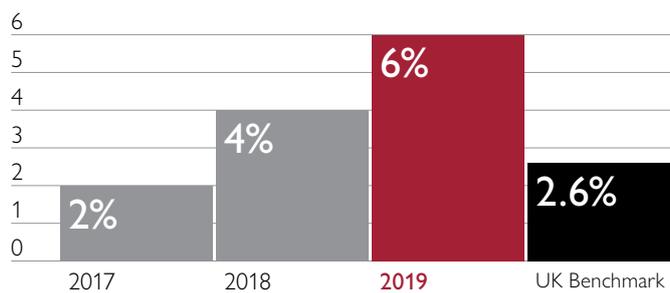
Gender diversity:  
Women in the workforce



Disability diversity:  
Disability in the workforce



Sexual orientation diversity:  
LGBTQ+ in the workforce



**Workforce Diversity Statistics**

NB: The UK Benchmark levels quoted in the above charts are national levels external to the Fund. Data has been taken from the Government Office of National Statistics and other similar sources.

**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. All senior staff, trustees and country and area committee members are on the payroll of NHMF and therefore pay tax and national insurance contributions through the PAYE route. The Fund complies with IR35 requirements. All workers are on payroll except for staff employed directly through agencies; temporarily seconded to the Fund and paid through the payrolls of their employer; or in a very small number of cases as individual contractors who fall outside of IR35. (The latter are only appointed following close inspection and a declaration made under this legislation).

**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 2020

## 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 2020 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 2020 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 have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the National Heritage Memorial Fund's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the National Heritage Memorial Fund have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the National Heritage Memorial Fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

### 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.
- Conclude on the appropriateness of the National Heritage Memorial Fund'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. If I conclude that a material uncertainty exists, I am required to draw attention in my 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 report. However, future events or conditions may cause the National Heritage Memorial Fund to cease to continue as a going concern.

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 Performance 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

14 July 2020

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 2020

	Notes	£'000	2019-20 £'000	2018-19 £'000
<b>Sundry operating income</b>	3		<b>0</b>	1
New awards made in the year	15	<b>(10,457)</b>		(5,522)
De-committed awards	15	<b>238</b>		(518)
			<b>(10,219)</b>	(6,040)
Staff costs	24	<b>(139)</b>		(105)
Depreciation	9 and 10	<b>(9)</b>		(2)
Other operating charges	4	<b>(149)</b>		(153)
			<b>(297)</b>	(260)
<b>Operating expenditure</b>			<b>(10,516)</b>	(6,300)
<b>Operating deficit</b>			<b>(10,516)</b>	(6,299)
Profit on the sale of investments	5	<b>870</b>		2
Interest receivable	6	<b>35</b>		47
Distributions received	7	<b>828</b>		810
<b>Non-operating income</b>			<b>1,733</b>	859
<b>Comprehensive net expenditure transferred to the accumulated fund</b>			<b>(8,783)</b>	(5,440)
<b>Other comprehensive income</b>				
Net (loss)/gain on revaluation of available for sale financial assets	19		<b>(4,691)</b>	1,196
<b>Total comprehensive expenditure for the year ended 31 March 2020</b>			<b>(13,474)</b>	(4,244)

The statement of comprehensive net expenditure excludes the National Lottery distribution activities of NHMF, which are reported in a separate set of accounts.

The notes on pages 36 to 45 form part of these accounts.

## Statement of changes in taxpayers' equity

for the year ended 31 March 2020

	Fair value reserve £'000	Income and expenditure account £'000
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
Balance at 31 March 2019	17,517	28,766
<b>Changes in taxpayers' equity in 2019–20</b>		
Net loss on revaluation of investments	(4,691)	0
Comprehensive net expenditure transferred to the accumulated fund	0	(8,783)
Grant-in-aid from DCMS	0	6,270
<b>Balance at 31 March 2020</b>	<b>12,826</b>	<b>26,253</b>

The fair value reserve relates to the difference between book cost and market value of the investments in the endowment fund (see note 12 on page 40). The difference between book and market value of intangible fixed assets and property, plant and equipment (see notes 9 and 10 on page 39) is not material.

## Statement of financial position

as at 31 March 2020

	Notes	31 March 2020 £'000	31 March 2019 £'000
<b>Non-current assets</b>			
Intangible fixed assets	9	2	1
Property, plant and equipment	10	15	2
Right of use	11	11	0
Long-term financial assets available for sale	12	39,262	45,132
		<b>39,290</b>	45,135
<b>Current assets</b>			
Trade and other receivables	13	210	210
Cash and cash equivalents	8	4,020	2,095
Cash held in the endowment fund	12	0	0
		<b>4,230</b>	2,305
<b>Total assets</b>		<b>43,520</b>	47,440
<b>Current liabilities</b>			
Payables	14	(224)	(86)
Grant liabilities due within one year	15	(4,210)	(1,071)
		<b>39,086</b>	46,283
<b>Non-current liabilities</b>			
Payables due in more than one year	14	(7)	0
Grant liabilities due after one year	15	0	0
<b>Assets less liabilities</b>		<b>39,079</b>	46,283
<b>Taxpayers' equity</b>			
Fair value reserve	19	12,826	17,517
Income and expenditure account		26,253	28,766
		<b>39,079</b>	46,283

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 36 to 45 form part of these accounts.



**René Olivieri**  
Interim Chair

8 July 2020



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

## Statement of cash flows

for the year ended 31 March 2020

	Notes	2019–20 £'000	2018–19 £'000
<b>Operating activities</b>			
Cash from sundry operating income	3	0	1
Cash paid to and on behalf of employees		(85)	(65)
Interest received	6	35	47
Cash received from donations		0	229
Cash paid to suppliers		(55)	(177)
Cash paid to grant recipients	15	(7,080)	(10,229)
<b>Net cash outflow from operating activities</b>	17a	<b>(7,185)</b>	(10,194)
<b>Investing activities</b>			
Capital expenditure and financial investment	17b	(19)	(1)
Endowment fund net cash receipts	17b	2,859	612
<b>Net cash inflow from returns on investments</b>		<b>2,840</b>	611
<b>Cash flow before financing</b>		<b>(4,345)</b>	(9,583)
<b>Financing activities</b>			
Grant-in-aid received	17c	6,270	4,629
<b>Increase/(decrease) in cash and cash equivalents</b>		<b>1,925</b>	(4,954)

The notes on pages 36 to 45 form part of these accounts.

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

for the year ended 31 March 2020

	2019–20 £'000	2018–19 £'000
Increase/(decrease) in operating cash in the period	1,925	(4,954)
Cash used to increase liquid resources	0	0
<b>Changes in cash and cash equivalents</b>	<b>1,925</b>	(4,954)
Cash and cash equivalents at 1 April	2,095	7,049
<b>Cash and cash equivalents at 31 March</b>	<b>4,020</b>	2,095

The notes on pages 36 to 45 form part of these accounts.

# Notes to the accounts

for the year ended 31 March 2020

## 1. Statement of accounting policies

There are no standards and interpretations in issue, but not yet adopted, that the trustees anticipate will have a material effect on the reported income and net assets of NHMF or its National Lottery distribution activities. International Financial Reporting Standard 16 (leases) is new and has an impact on our 2019–20 accounts, particularly those for our National Lottery distribution activities, which are analysed in the accounting policy below and also note 11.

### a) Accounting convention

These accounts are drawn up in a form directed by the Secretary of State for DCMS 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 of State for DCMS in April 2019. 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 DCMS 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 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
Right of use asset	
– property lease	– 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

Following the introduction of IFRS 16 on leases, operating leases are now treated in the same manner as finance leases. Significant long term leases (more than one year in length) are capitalised at their estimated cost excluding any deemed 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. Capitalised leases are disclosed on the statement of financial position.

The annual rentals on any leases falling outside the definition required by IFRS 16 are charged to the statement of comprehensive net expenditure on a straight-line basis over the term of the lease. Included in this category are leases for franking machines and photocopiers.

Note 11 has further details on the impact of the introduction of IFRS 16 on the accounts.

### 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 45 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% (2018–19: 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

	2019–20 £'000	2018–19 £'000
Grant from DCMS	6,270	4,629

The rise in grant-in-aid is for two reasons. First, we reverted to our recent standard annual level of grant-in-aid of £5million (we returned £371,000 to DCMS in 2018–19 representing overpaid grant-in-aid from 2017–18). Second, we received an additional £1.27million in March 2020 to enable the Youth Accelerator Fund, which we are administering on behalf of DCMS.

## 3. Sundry operating income

This comprises:

	2019–20 £'000	2018–19 £'000
Repayments of grant	0	0
Donations and bequests	0	1
	0	1

#### 4. Operating deficit

The operating deficit is stated after charging the following:

	2019–20 £'000	2018–19 £'000
Auditor's remuneration	11	16
Payments under operating leases		
– leasehold premises	8	7
– hire of plant and machinery	0	0

There were no non-audit fees paid to the external auditors. Additional costs of £10,856,000 have been allocated to NHMF's National Lottery distribution accounts. As disclosed in note 1 on page 36, 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:

	2019–20 £'000	2018–19 £'000
Accommodation	9	11
Postage and telephone	5	3
Travel, subsistence and hospitality	2	2
Professional fees		
– grant-related	8	6
– non-grant-related	57	99
Communications	16	17
Sundry expenses	3	6
Office equipment	49	9
	149	153

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

	2019–20 £'000	2018–19 £'000
Long-term financial assets available for sale	870	2

Profits (or losses) are earned on the disposal of investments held in the endowment fund when NHMF requires funds to pay grants. Income was much higher in 2019–20 as we needed to raise over £2million to fund the higher level of grants awarded this year.

#### 6. Interest received

	2019–20 £'000	2018–19 £'000
Bank interest received		
– Lloyds Bank	35	47
	35	47

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 2018–19 or 2019–20.

#### 7. Distributions received

	2019–20 £'000	2018–19 £'000
Income from endowment fund	828	810

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. The original intention was to raise around £750,000 per annum, but market conditions were more favourable than forecast up until near the end of the financial year and so a slightly higher sum has been achieved.

The impact of coronavirus on distributions will be felt in 2020–21.

#### 8. Cash and cash equivalents

	2019–20 £'000	2018–19 £'000
Instant access		
– Lloyds Bank	4,020	2,095
	4,020	2,095

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 would 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	
	2019-20 £'000	2018-19 £'000	2019-20 £'000	2018-19 £'000	2019-20 £'000	2018-19 £'000
Cost at start of year	0	0	1	0	1	0
Additions	0	0	1	1	1	1
<b>At end of year</b>	<b>0</b>	<b>0</b>	<b>2</b>	<b>1</b>	<b>2</b>	<b>1</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>2</b>	<b>1</b>	<b>2</b>	<b>1</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 2020, 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	
	2019-20 £'000	2018-19 £'000	2019-20 £'000	2018-19 £'000	2019-20 £'000	2018-19 £'000	2019-20 £'000	2018-19 £'000
Cost at start of year	3	3	20	20	1	1	24	24
Additions	7	0	10	0	1	0	18	0
Disposals	(3)	(0)	(22)	(0)	(1)	(0)	(26)	(0)
<b>At end of year</b>	<b>7</b>	<b>3</b>	<b>8</b>	<b>20</b>	<b>1</b>	<b>1</b>	<b>16</b>	<b>24</b>
Depreciation at start of year	3	2	18	17	1	1	22	20
Charge for the year	1	1	4	1	0	0	5	2
Adjustment on disposal	(3)	(0)	(22)	(0)	(1)	(0)	(26)	(0)
<b>At end of year</b>	<b>1</b>	<b>3</b>	<b>0</b>	<b>18</b>	<b>0</b>	<b>1</b>	<b>1</b>	<b>22</b>
Net book value at start of year	0	1	2	3	0	0	2	4
<b>At end of year</b>	<b>6</b>	<b>0</b>	<b>8</b>	<b>2</b>	<b>1</b>	<b>0</b>	<b>15</b>	<b>2</b>

Trustees have considered the current cost values of property, plant and equipment. A review of the current cost values at 31 March 2020 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. Right of use asset (IFRS 16) – change in accounting policy

IFRS 16 (Leases) has been adopted from 1 April 2019. This standard replaces International Accounting Standard 17 and sets out the principles for the recognition, measurement, presentation and disclosure of leases. IFRS 16 has been adopted using the modified retrospective approach, which does not require restatement of comparative information. IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than twelve months

unless the underlying asset is of low value. It requires the recognition of a right of use asset on the statement of financial position representing the right to use the underlying leased asset together with a corresponding lease liability representing the obligation to make future lease payments.

The right of use assets on recognition at 1 April 2019 were measured at an amount equal to the lease liability. The right of use asset and lease liability recognised in the statement of financial position were initially measured at the present value of future lease payments. Depreciation of right of use assets and

interest on lease liabilities have been recognised in the statement of comprehensive net expenditure.

Rentals under operating leases were previously charged to the statement of comprehensive net expenditure on a straight-line basis.

In March 2019, we took over an operating lease for part of International House in the borough of Tower Hamlets, London. The lease had a further three-and-a-half years to run at that point. As with other joint overhead costs, the accounts of NHMF 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 and so the impact on our results is not material. The following reconciliation explains the movements from operating lease commitments disclosed at 31 March 2019 (applying the previous policy IAS 17) to the opening balance for lease liabilities as at 1 April 2019 (applying IFRS 16).

Lease commitments disclosed in the accounts for 2018–19	19
Leases not meeting the definition of IFRS 16	(3)
Effect from discounting at the incremental borrowing rate as of 1 April 2019*	(1)
Lease liability recognised at the date of initial application of IFRS 16	15

\* The weighted average incremental borrowing rate for lease liabilities initially recognised as at 1 April 2019 was 1.99%

There is no impact on our cash flows.

NHMF 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 leases to be material and so they have not been included in this analysis.

IFRS 16 has led to the creation of a right to use asset reflecting our contractual right to occupy premises at St Katharine Docks in London for a period of 3 years.

Right of use asset:	2019–20	2018–19
	£'000	£'000
Balance at start of the year	0	0
Creation of right to use asset	15	0
Amortisation	(4)	0
Balance at close of year	11	0

## 12. 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 41 summarises the spread of investments by type and area.

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, i.e. 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 2020, the original £10million investment would be worth £44.2million taking into account indexation. The actual market value was £39.3million including cash held within the endowment.

The endowment fund comprises the following:

	Market value 2019–20 £'000	Book cost 2019–20 £'000
Long-term financial assets	39,262	26,436
Cash	0	0
	<b>39,262</b>	<b>26,436</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 26 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.

	2019-20 £'000	2018-19 £'000
Cost and net book value		
At start of year	27,615	27,618
Additions	0	0
Disposals	(1,179)	(3)
<b>At end of year</b>	<b>26,436</b>	<b>27,615</b>
Net book value		
Listed on the London Stock Exchange	0	0
Unlisted investments	26,436	27,615
	<b>26,436</b>	<b>27,615</b>
Cost	26,436	27,615
Market value	39,262	45,132
Unrealised gain	12,826	17,517

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

An analysis of investments at the year end was:

	2019-20 %	2018-19 %
Bonds	6	1
UK equity	17	24
Europe equity (excluding UK)	3	3
North America equity	15	11
Japan and other Asian equity	6	6
Emerging market equity	7	6
Global equity funds	17	13
Property	9	9
Absolute return/hedge	6	16
Diversifiers	8	0
Infrastructure	0	3
Cash	6	5
Commodities	0	3
	<b>100</b>	<b>100</b>

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

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

	2019-20 £'000	2018-19 £'000
Repayment of grant	0	0
Prepayments and accrued income	210	210
	<b>210</b>	<b>210</b>

No bad debt provision has been created as none of the above items is considered irrecoverable. Almost all the debt is the quarter 4 distribution from our endowment fund. This sum was received before the accounts were signed off.

### 14. Payables

	2019-20 £'000	2018-19 £'000
Operating payables	9	22
Other payables including taxation and social security	158	18
Accruals and deferred income	64	46
	<b>231</b>	<b>86</b>

None of the liabilities of NHMF was secured. Of the above amounts for operating and other payables, £158,000 was payable to central government bodies (2018-19: £4,000).

Accrual and deferred income includes £11,000 reflecting the creation of a right to use asset under IFRS 16 (see note 11 for further details) of which £7,000 is due in more than one year.

### 15. Grant liabilities

	2019-20 £'000	2018-19 £'000
At start of year	1,071	5,260
Grants paid in the year	(7,080)	(10,229)
Standard commitments created in the year	10,457	5,522
De-committed awards	(238)	(518)
<b>At end of year</b>	<b>4,210</b>	<b>1,071</b>

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

	2019-20 £'000	2018-19 £'000
In one year	4,210	1,071
In two to five years	0	0
	<b>4,210</b>	<b>1,071</b>

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

	2019-20 £'000	2018-19 £'000
Balances owing to		
– central government	115	435
– local authorities	1,008	558
– public corporations	75	0
– other bodies	3,012	78
	<b>4,210</b>	<b>1,071</b>

### 16. Commitments

The level of contracted future operating lease payments is normally disclosed as a note to the accounts. However, following the implementation of IFRS 16, almost all operating leases have now been capitalised and appear on the statement of financial position.

We are not capitalising all our leases as IFRS 16 allows exceptions for small leases and short-term

leases. However, we are making no disclosure here as the sums involved are negligible.

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

	2019–20 £'000	2018–19 £'000
Short-leasehold property		
– not later than one year	0	8
– later than one year but not later than five years	0	11
– later than five years	0	0
	<b>0</b>	<b>19</b>

In addition, non-right of use lease commitments of £299,000 (2018–19: £2,309,000) 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.

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

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

	2019–20 £'000	2018–19 £'000
Operating deficit	<b>(10,516)</b>	(6,299)
Interest receivable	35	47
Add back non-cash items		
– depreciation	9	2
Increase/(decrease) in grant commitment reserve	3,139	(4,189)
(Increase)/decrease in receivables (excluding capital and investments)	(0)	228
Increase in non-capital payables	148	17
Net cash outflow from operating activities	<b>(7,185)</b>	(10,194)

b) Capital expenditure and financial investment:

	2019–20 £'000	2018–19 £'000
Payments to acquire		
– property, plant and equipment	(18)	(0)
– intangible fixed assets	(1)	(1)
– 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	2,050	5
Income from long-term financial assets available for sale	809	607
	<b>2,840</b>	<b>611</b>

c) Analysis of changes in net funds:

	At 1 April 2019 £'000	Operating cash flows £'000	Grant-in-aid £'000	At 31 March 2020 £'000
Cash at bank	2,095	(4,345)	6,270	<b>4,020</b>

### 18. Related-party transactions

NHMF is a non-departmental public body sponsored by DCMS. DCMS is regarded as a related party. During the year, NHMF (including its National Lottery distribution activities) has had various material transactions, other than grant awards, with DCMS itself and with five entities for which DCMS is regarded as the sponsor department – The National Lottery Community Fund, Sport England, UK Sport, Historic England, 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.

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 continued to receive rental income from the committee until the end of September 2019, which amounted to £37,000 for the period. In addition, the Committee on Climate Change made contributions towards the cost of running Holbein Place of approximately £21,000 for the period April to September 2019. At 31 March 2020, we were owed £4,000 by the Committee on Climate Change, 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 Legal & Governance 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 three NHMF grants awarded in 2019–20 where a trustee had an interest.

### Norfolk Museums Service

A grant of £651,000 – Saving for Norfolk a newly re-discovered pietre dure tabletop belonging to the Paston family.

Steve Miller declared a conflict of interest in his capacity as head of the applicant organisation, Norfolk Museums Service.

### National Trust for Places of Historic Interest or Natural Beauty

A grant of £800,000 – Protecting the Stonehenge Landscape.

Dr David Stocker declared a conflict of interest as a member of the council of the National Trust, the applicant, and having been involved in discussions around the project in this capacity.

### Kettle's Yard

A grant of £371,750 – Joint acquisition by Tate and Kettle's Yard of three sketchbooks by Alfred Wallis.

Tim Knox declared a conflict of interest having been a Trustee of Kettle's Yard from 2014 to 2018.

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

There were no other commercial transactions in which trustees or staff had a material interest or influence. In 2019–20 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.

## 19. Fair value reserve

	2019–20 £'000	2018–19 £'000
At start of year	17,517	16,321
Movement in the year	(4,691)	1,196
<b>At end of year</b>	<b>12,826</b>	17,517

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 39). The difference between book and market value of intangible fixed assets and property, plant and equipment (see notes 9 and 10 on page 39) is not material.

## 20. 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 £6.27million as grant-in-aid during 2019–20 and has received a further £5million in April 2020. 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 £4.0million at the date of the statement of financial position) and the endowment fund (worth £39.3million at the date of the statement of financial position), to cover all outstanding grant awards of £4.2million and administrative liabilities of £231,000. 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 0.69% during the year. The small rise in base rates in August 2018 improved the average return slightly, but our interest earned fell in February 2020 when base rates were cut in response to the pandemic. 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 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 £4.0million and were held as disclosed in the table on page 38. 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 £39.3million. 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 fall of 13.5%. 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. The Finance, Staffing and Resources Committee no longer sits following changes made under our recent governance review: the Investment Panel now reports directly to the Board of Trustees.

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 2020 – indeed we hope that the government will mark our 40th anniversary with an increase. 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 DCMS, trustees will review their long-term grant award strategy.

	2019–20 £'000	2018–19 £'000
Cash balances		
– sterling at floating interest rates	4,020	2,095
– sterling at a mixture of fixed and floating rates	0	0
– sterling at fixed rates	0	0
	<b>4,020</b>	<b>2,095</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 52%. 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.

<b>Financial assets by category</b>	2019–20 £'000	2018–19 £'000
Assets per the statement of financial position		
– non-current assets	39,290	45,135
– cash and cash equivalents	4,020	2,095
– loans and receivables	210	210
	<b>43,520</b>	<b>47,440</b>

<b>Financial liabilities by category</b>	2019–20 £'000	2018–19 £'000
Liabilities per the statement of financial position		
– other financial liabilities		
• grant commitments	4,210	1,071
• operating payables	9	22
• other payables	158	18
• accruals	64	46
	<b>4,441</b>	<b>1,157</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 2020.

<b>Financial assets at 31 March 2020</b>	Book value £'000	Fair value £'000
Cash <sup>1</sup>	4,020	4,020
Investments <sup>2</sup>	26,436	39,262
Receivables <sup>3</sup>	210	210
	<b>30,666</b>	<b>43,492</b>

<b>Financial assets at 31 March 2019</b>	Book value £'000	Fair value £'000
Cash	2,095	2,095
Investments	27,615	45,132
Receivables	210	210
	<b>29,920</b>	<b>47,437</b>

<b>Financial liabilities at 31 March 2020</b>	Book value £'000	Fair value £'000
Grant payables <sup>4</sup>	4,210	4,210
Operating payables <sup>5</sup>	9	9
Other payables <sup>5</sup>	158	158
Accruals <sup>5</sup>	64	64
	<b>4,441</b>	<b>4,441</b>

## Financial liabilities at 31 March 2019

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

### Basis of fair valuation:

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

## Maturity of financial liabilities

	2019–20 £'000	2018–19 £'000
In less than one year	<b>4,434</b>	1,157
In more than one year, but less than two	<b>2</b>	0
In two to five years	<b>5</b>	0
In more than five years	<b>0</b>	0
	<b>4,441</b>	<b>1,157</b>

## 21. Statement of losses and special payments

NHMF made no losses or special payments during the year (2018–19: £0).

## 22. Segmental reporting

As mentioned elsewhere in these accounts, we administered DCMS's Youth Accelerator Fund in 2019–20 (and will continue to do so next year). We have incurred administrative costs for the running of this, but not at a level significant enough to distort our numbers. Therefore, as the impact on our administrative costs in 2019–20 was relatively small we have not carried out segmental analysis for 2019–20.

## 23. Events after the reporting period

There were no events that occurred after 31 March 2020 up until the date the Accounting Officer signed these accounts that need to be disclosed. The financial statements were authorised for issue on 8 July 2020 by the Trustees and Accounting Officer on the date they were certified by the Comptroller and Auditor General.

## 24. Staff costs

	2019–20 £'000	2018–19 £'000
Salaries	<b>101</b>	78
Employer's NI payments	<b>11</b>	7
Payments to pension scheme	<b>12</b>	14
Temporary staff costs	<b>15</b>	6
	<b>139</b>	<b>105</b>

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

# 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 for the year 2019–20. This information covers both our grant-in-aid and National Lottery distribution activities.

## Trade Union Facility Time

The Fund recognises two Trade Unions, PCS and FDA, with whom it holds formal quarterly meetings and monthly informal meetings. We believe in partnership working and support Trade Union membership. All Trade Union representatives play valuable roles in the workplace and have a statutory right for reasonable paid time off during normal working hours to complete union duties, according to their Trade Union role and to undertake Trade Union activities.

We also have a statutory requirement to disclose information about Trade Union Facility Time and relevant expenditure.

### Trade union representatives and full-time equivalents

	Representatives
Trade union representatives	<b>20</b>
FTE trade union representatives	<b>18.46</b>

### Percentage of working hours spent on facility time

Percentage of working hours	Representatives
0%	<b>0</b>
1–50%	<b>20</b>
51%–99%	<b>0</b>
100%	<b>0</b>

### Total pay bill and facility time costs

Total cost of facility time	£19,166
Total pay bill	£14,692,000
Percentage of pay spent on facility time	<b>0.13%</b>

### Paid trade union activities

Hours spent on paid facility time	871
Hours spent on paid trade union activities	0
Percentage of total paid facility time hours spent on paid TU activities	<b>0%</b>

# 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. 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 2020 and will be updated annually.

In April 2020, the Board agreed to shift its endowment fund from investing in Schroder's Charity Multi-Asset Fund to Schroder's Responsible Multi-Asset Fund. The new investment selection will be disclosed in the accounts for 2020–21.

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 2020

\* 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>17.1%</b>
Charity Equity Value Fund	5.6%
Vanguard FTSE 250 ETF	1.6%
Majedie UK Equity Fund	4.3%
Troy Trojan Income Fund	5.6%
<b>Global equities</b>	<b>17.0%</b>
Schroder QEP Global Core	14.1%
T Rowe Global Technology Fund	1.5%
Wellington Global Health Care	1.4%
<b>European equities</b>	<b>3.0%</b>
Blackrock European Dynamics Fund	1.7%
Schroder European Alpha Income Fund	1.3%
<b>US equities</b>	<b>14.9%</b>
Vanguard S&P 500 ETF	10.8%
William Blair US Small-mid Cap Growth	2.5%
Spyglass US Growth Fund	1.6%
<b>Asian equities</b>	<b>3.1%</b>
Schroder Asian Alpha Plus Fund	3.1%
<b>Japanese equities</b>	<b>3.1%</b>
Vanguard Japan Stock Index ETF	3.1%
<b>Emerging market equities</b>	<b>7.1%</b>
Allianz China A-shares Fund	2.1%
Schroder Global Emerging Markets Fund	5.0%
<b>Equities</b>	<b>65.3%</b>
<b>Absolute return*</b>	<b>6.3%</b>
Pyrford Global Total Return Fund	3.0%
Troy Trojan Fund	3.3%
<b>Property</b>	<b>8.9%</b>
Charities Property Fund	3.2%
Ground Rents Income Fund	1.0%
Property Income Trust for Charities	4.7%
<b>Diversifiers</b>	<b>7.8%</b>
iShares Physical Gold (\$)	4.4%
Schroder Diversified Alternative Assets Fund	3.4%
<b>Alternatives</b>	<b>23.0%</b>
<b>Bonds</b>	<b>5.4%</b>
Schroder Sterling Corporate Bond Fund	1.5%
Lyxor Core US TIPS	1.7%
Twenty Four Absolute Return Credit Fund	2.2%
<b>Cash</b>	<b>6.3%</b>
Cash	6.3%
<b>Bonds and cash</b>	<b>11.7%</b>

# Chair, Trustees and management

## NHMF Chair and Trustees

### Chair

René Olivieri

### Trustees

Maria Adebowale-Schwarte

Baroness Kay Andrews OBE

Jim Dixon

Dr Claire Feehily

Sarah Flannigan

Perdita Hunt DL, OBE

Ray Macfarlane

Dr David Stocker

## Executive Directors

### Chief Executive and Accounting Officer

Ros Kerslake OBE

Colin Bailey

Carli Harper-Penman  
to 7 November 2019

Isabel Hunt

from 4 November 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

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