

NATIONAL
HERITAGE
MEMORIAL
FUND



Annual Report and Accounts
for the year ended 31 March 2021



National Heritage Memorial Fund

Annual Report and Accounts for the year ended 31 March 2021

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Foreword by Dr Simon Thurley CBE

Chair of the National Heritage Memorial Fund



The challenges of the coronavirus pandemic made 2020 a critical year for the nation's heritage. The pandemic has affected everybody's lives, both directly and indirectly, and we know that across a broad range of our national heritage this impact has been felt deeply.

In three decades of working in heritage, I have never experienced a more difficult and uncertain time, but as we pull out of the pandemic I believe that our heritage has the power and potential to support the programme of national recovery and renewal – both economically and in its positive effect on people's lives and the places they live, work and visit.

Supporting the sector

In April 2020, The National Heritage Memorial Fund quickly focused our efforts on aiding the heritage sector's recovery through the distribution of government funding. We delivered a range of programmes across the UK funded by grant-in-aid allocated to the administrative body of NHMF. The ability to provide a swift support to the immediate impact of the pandemic has been in large part down to the dedication and commitment of our staff, along with leadership from Ros Kerslake, CEO, and my predecessor René Olivieri. I would like to thank René who, as interim chair since December 2019, has played a critical role in steering The Fund over the last challenging year.

Also in April 2020, our Trustees decided to allocate £20million of grant-in-aid and endowment funds as part of the NHMF's long term response to the pandemic, to support nationally important heritage put at risk due to the impact of COVID-19. In order to preserve this funding for when it is most needed, we paused NHMF's usual programme of grant making, except for the most urgent cases.

I am particularly pleased that one of the urgent cases we were able to support was to save for the nation the iconic polar sledge and flag from Shackleton's British Antarctic Expedition of 1907, outstanding items attesting to resilience in the face of challenge and the spirit of exploration.

“Our heritage has the power to support national recovery and renewal.”

Marking 40 years

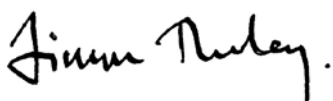
The significance of the year 2020 is also marked as the 40th anniversary of the Fund. Originally set up in 1980, the NHMF was created as a lasting memorial to those who have given their lives for the United Kingdom. Through the coronavirus pandemic, this aspect of national memorial has taken on a new relevance.

In December, we acknowledged our anniversary with the announcement of the Shackleton acquisitions, as well as looking back at some of our highlights from the last four decades. Over the years, NHMF has helped to save thousands of iconic heritage treasures, from literary collections and precious works of art to historic landscapes. This incredible world-class collection now belongs to the people of the UK forever.

Looking to the future

In June 2021, we will host a digital celebration for heritage leaders and NHMF supporters to mark our anniversary. The event will be a chance to look to the future and long-term recovery of heritage, and with a panel of colleagues from across the breadth of UK heritage organisations we will discuss our focus for the next 40 years. We will also announce the opening of significant new funding streams; £20million of funding for England via the DCMS's Cultural Asset Fund and £20million of UK-wide NHMF endowment funding that we will distribute over the next two years. This funding will help ensure that our most important heritage assets at risk of loss due to the impact of the pandemic will be saved, a vital step on the road to recovery for the sector.

For more information about the projects we've recently funded, please visit www.nhmf.org.uk.



Dr Simon Thurley CBE
Chair of NHMF



Drawings of the Armada maps

National Museum of the Royal Navy

£212,800

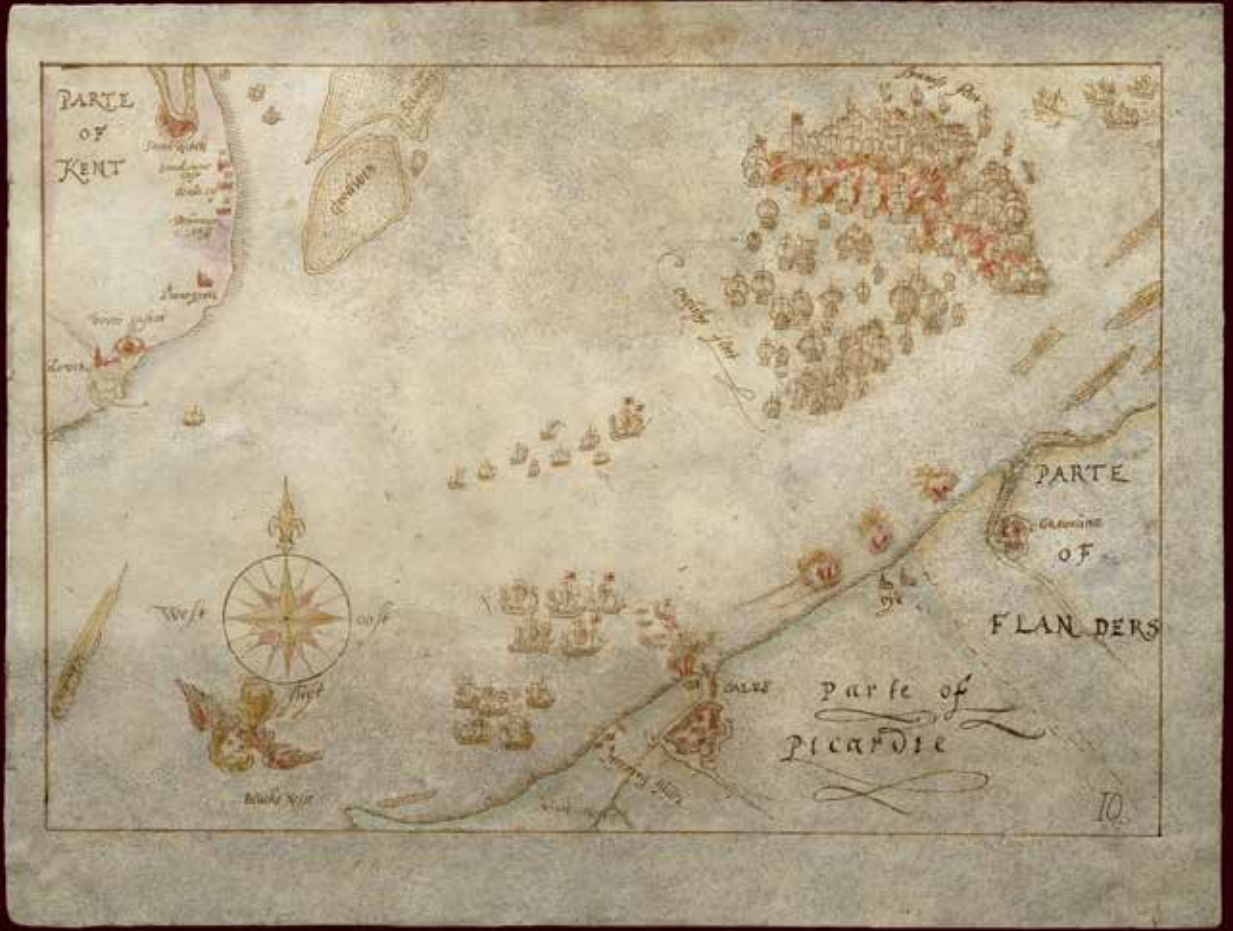
These maps are part of a set of ten incredibly rare maps that plot the defeat of the Spanish Armada, a defining moment in England's history.

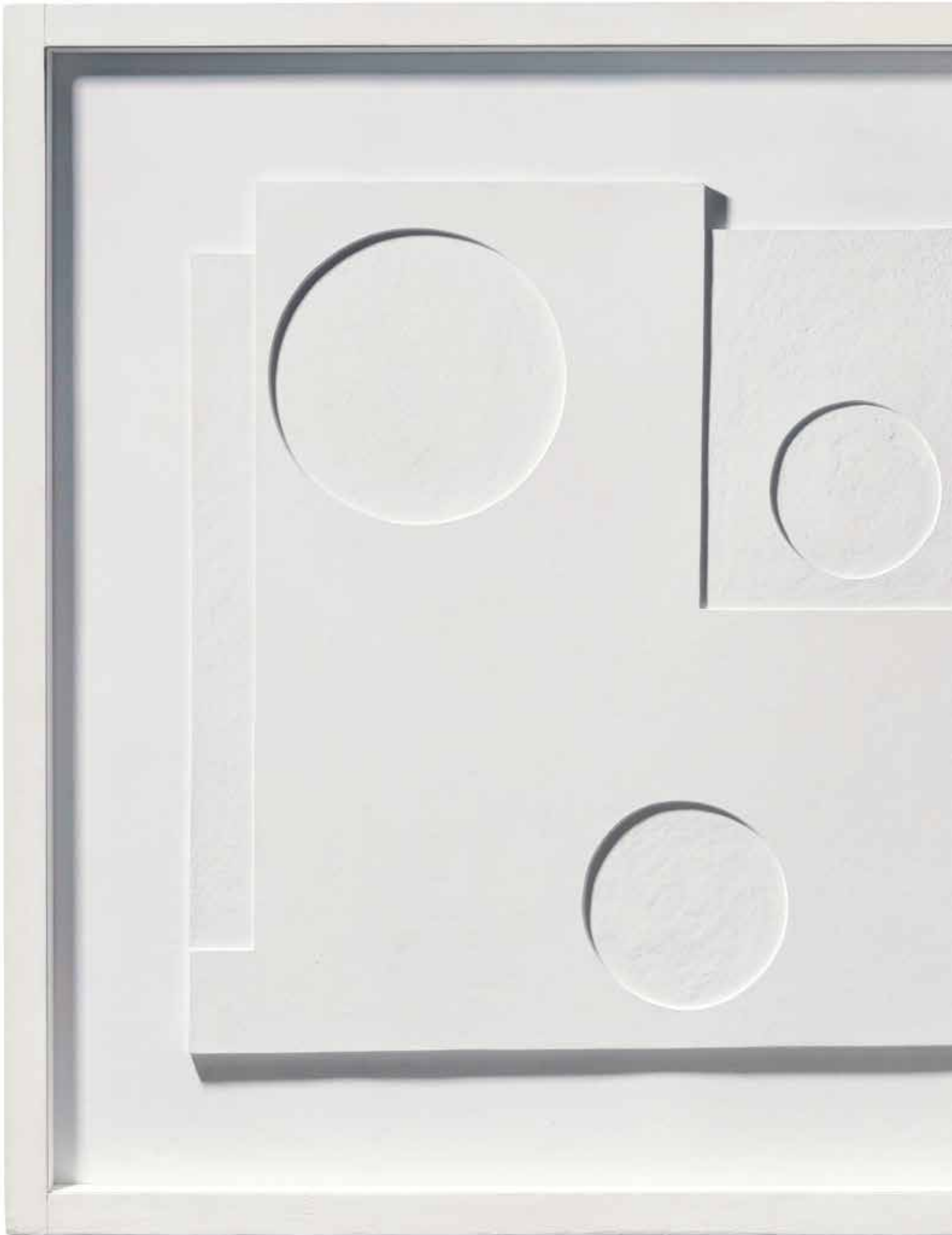
The hand-drawn maps are thought to be the earliest surviving representations of the naval battles and have not left the UK since they were first created in 1589. They were sold to an overseas buyer in 2020 but an export bar was placed on them by the UK government and the National Museum of the Royal Navy began a campaign to raise funds to save them. Thanks to a grant from NHMF, along with funding from the Art Fund and support from the British public, the maps have been saved for the nation and will be displayed at the National Museum of the Royal Navy.



Left: The sighting of the Spanish Armada off the Lizard, 29th July 1588.

Below: Series of visual representations of the defeat of the Spanish Armada.







White Relief (*Quai d'Auteuil*), 1935 by Ben Nicholson

The Hepworth Wakefield

£1,495,000

White Relief (Quai d'Auteuil) is one of the most important works by British modernist painter, Ben Nicholson.

The relief was created in 1935 and Nicholson wrote that it was one of his two favourite White Reliefs. He described it as having 'a marvellous peacefulness, exciting landscape of foothills, and mountains, and still sunlight and snow'.

The title refers to the Parisian street where the painting was conceived while Nicholson was visiting his first wife, Winifred Nicholson. The White Reliefs drew inspiration from the sculptural form of the work of Nicholson's second wife, Barbara Hepworth, who was also a prominent British artist and sculptor. It was during this period that Nicholson became the fulcrum for disseminating information about modernism between London and Paris.

The NHMF grant will enable Nicholson's work to continue to be exhibited at The Hepworth Wakefield, where it has been displayed on loan since 2015.

The remarkable Polar sledge and flag of Dr E Marshall

National Maritime Museum/
Scott Polar Research Institute

£204,700

This sledge and sledging flag were used by Dr Eric Marshall on the British Antarctic Expedition of 1907–1909 – one of the most important expeditions in British polar history.

This is the only known surviving sledge from the Southern Party's attempt to reach the Geographical South Pole, led by Ernest Shackleton. The exploration was famous for being the first to reach within 100 miles of the South Pole, locating the South Magnetic Pole and scaling the active volcano Mount Erebus, and the team were hailed as heroes on their return to the UK.

Our grant enabled the National Maritime Museum and Scott Polar Research Institute to acquire these important pieces of history. The sledging flag will now be reunited with its partner, Shackleton's sledging flag from the same expedition, in the collections of the Scott Polar Research Institute; and the National Maritime Museum will display the sledge to the public in 2021.





Clockwise from left: Sledge from Shackleton's British Antarctic Expedition © Oliver Williams/Bonhams; Sledge flag from Shackleton's British Antarctic Expedition © Oliver Williams/Bonhams; Christmas camp on the plateau with loaded sledge © Scott Polar Research Institute, University of Cambridge; Eric Marshall © Scott Polar Research Institute.







'Quiet' by James Tissot

National Museums NI

£90,000

Quiet is a highly personal artwork by British/French artist, James Tissot. Painted in the garden of his London house, it focuses on Mrs Kathleen Newton, his partner and muse.

Kathleen Newton was born in India to Irish parents and came to live in England with her sister after a brief arranged marriage at 17. While living in London she met and moved in with Tissot where they lived as unmarried couple – a status that affected the couple's social standing and Tissot's career. Newton became Tissot's muse and features in several of his other best known paintings.

At the Ulster Museum, National Museums NI makes its Fine Art collection accessible through a semi-permanent, chronological hang. *Quiet* is an important new addition to this hang, and visitors will be able to appreciate the painting in the context of the wider collection and learn more about Kathleen Newton's Irish identity and the relationship between colonialism and gender.

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 National Heritage Memorial Fund's (NHMF) 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 2020–21:

A statement from the Chief Executive

2020–21 marked the 40th anniversary of the founding of the National Heritage Memorial Fund (NHMF or the Fund).

The unique value that the Fund provides was never more demonstrated than in 2020–21 – a year like no other. The COVID-19 pandemic has shown the importance of heritage across the UK and the value people and community place on their heritage at times of a national crisis.

The Fund has been able to step up to the challenges and support all those people and communities in caring for heritage, saving projects as well as protecting jobs, livelihoods and wellbeing for so many.

We have worked with UK government departments and devolved administrations to invest close to £190million into the heritage sector to achieve those outcomes, and indeed more, both in an immediate response to the sectoral needs from the crisis as well as wider needs. The Fund is now, very clearly, seen as a key delivery partner for grants and investment in all areas of heritage.

We have been instrumental in delivering a range of funding programmes including the Culture Recovery Fund for Heritage for the Department for Digital, Culture, Media and Sport (DCMS), and the Green Recovery Challenge Fund for the Department for Environment, Food and Rural Affairs (DEFRA).

All of these investments have been delivered from a standing start in 2020–21 and are a testimony to the partnerships we have built with funding partners as well as the exceptional commitment and skills of our teams here at the Fund.

In addition to these interventions we have also been able to continue with some of our usual work in providing grants to help save some remarkable items for 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 have included:

- Spanish Armada maps for the National Museum of the Royal Navy;
- Sledge and sledging flag from Ernest Shackleton's Antarctica expedition for the Scott Polar Research Institute;
- acquisition of *White Relief (Quai d'Auteuil)* by Ben Nicholson for The Hepworth in Wakefield and;
- acquisition of *Quiet* by James Tissot for the National Museums Northern Ireland.

In 2020–21 we moved our endowment into a new Responsible Multi Asset Fund signifying our commitment to the environment and sustainability agendas as well as the good governance agenda in investment. Despite the challenges of the year the endowment has continued to perform very well.

Although we were not able to celebrate our 40th anniversary in quite the way we had intended, we have been able – through both our emergency investment programmes and our normal day to day work – to continue to protect and save remarkable heritage across the nation in a year when that has never been more important.

Let me also take the time to thank all our staff here at the Fund. They work with great integrity and professionalism, are truly committed to our work and provide an exceptional service.

Finally, I should like to pay tribute to René Olivieri who stood down as our interim Chair in March 2021. He has helped guide us through our most challenging and demanding year ever and we will miss his leadership and counsel. We very much look forward to working with his permanent successor, Dr Simon Thurley CBE as our new Chair.

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 Exchequer/grant-in-aid distribution activities have faced a number of notable risks throughout the year, and we have actively, and effectively, managed these to minimise the impact on our customers and other stakeholders as well as on ourselves.

Trustees consider the risks faced by the organisation at Board meetings and through the detailed scrutiny provided by the Audit and Risk Committee.

Due to the COVID-19 crisis we adapted our risk reporting to make for more frequent and flexible reporting to the Board, Audit and Risk Committee and senior staff. A top-level risk assessment, with narrative, status and trend data was provided throughout the year. Details are set out in the Governance Statement on page 25.

Our principal risks last year related to the COVID-19 crisis and these continued, albeit in different forms throughout the whole of the year. We grouped risks relating to the crisis between external and internal risks, whilst recognising that these two groups are not discrete and overlap.

1. External crisis risks

The key risks here have centred on our ability to respond quickly in terms of the creation, development and delivery of the grant-in-aid programmes from the UK government and devolved administrations throughout the year (both crisis-related investment programmes and wider programmes too). These have included:

- Culture Recovery Fund for Heritage for the Department for Digital, Culture, Media and Sport (DCMS) including Round 1 and Round 2 funding:
- Heritage Capital Kickstart Fund for DCMS:
- Business Support and Digital Skills programmes for DCMS:
- Green Recovery Challenge Fund for the Department for Environment, Food and Rural Affairs (DEFRA):
- In Northern Ireland, the Heritage Recovery Fund, Community Heritage Fund and Shared History Fund, and finally,
- In Wales we have distributed via the Green Recovery Fund, 15 Minute Heritage Fund, Local Places for Nature Fund and the Community Woodlands Fund.

These have reflected an investment of around £188million against our normal level of investment of around £5million per annum.

We have managed this by redirecting our strategy, policy and new business teams into the design and development of these interventions. This has also been supplemented by the work from our Business Delivery Central and Programme team to quickly develop practical aspects to their delivery such as applications forms, evidence needs, assessment criteria, application portals, processing etc.

We have managed the risks attached to these by re-allocating staff capacity from our Lottery work, backfilling these roles, bringing in additional staff on short term contracts and additional external expertise to support the programmes.

2. Internal crisis-based risks

Our principal risk here was the use of our Business Continuity Plan and the need to ask all staff to work remotely from home and in a virtual environment. We were able to successfully implement all these measures within 48 hours of the government's requirements.

Our use of mobile devices, cloud-based solutions and applications has meant that all our services have been available to all applicants and grantees. No offices have opened in the entire year and instead all staff have carried out their duties remotely – both with customers and with colleagues/internally too. All applications have been handled remotely, all payment claims remotely and all actual payments too. This applies to both grantees and our suppliers.

Our arrangements in our business continuity planning for our Crisis Management team, Business Continuity team and work areas like IT continuance, communications, approvals etc. were all implemented fully and without any problems. We provided all staff with display screen equipment or specific work needs specialist equipment and adjustments for working from home.

Our other main internal risk was identified early on in the crisis. We recognised that supporting all teams in respect of their physical health, mental health and wellbeing was going to be critical. We put in place a series of well-received and effective public health/protection messages alongside clear, open communications to keep all teams abreast of developments within business continuity planning.

Throughout the year we have developed and delivered a series of support packages for colleagues' mental health and wellbeing including:

- 25+ Wellbeing and Mental Health Initiatives
- Yoga and Tai Chi sessions
- Mindful meditation sessions
- Keep well at home sessions
- Children's exercise classes and workout sessions
- Top tips to reduce stress
- Access to flu jabs

In addition, we provided special flexible leave for staff with caring responsibilities such as children or elderly relatives to allow them to take paid leave or work flexible hours to allow for the caring obligations. We also recognised that the crisis environment brought with it new and different risks for fraud and error, so we put in place extensive safeguards, checks and controls to minimise these risks. We continue to monitor and manage these very closely.

3. Other principal risks

Besides the crisis-based risks we also recognised other risks in the year.

Throughout the year we closely monitored the potential impacts on the sector and ourselves of the UK's departure from the European Union. We managed our internal risks effectively here (staffing, data, supply chains etc.) and saw no adverse impact following the departure.

We have responded to the risk arising from the climate emergency in two ways. Firstly, we have moved our endowment fund into the Responsible Multi-Asset Fund run by our investment managers Cazenove and targeted at sustainable and environmentally sound investments with effective governance and specific exclusions of investments. Secondly, we have also ensured that our carbon footprint, practices and internal management reflect a better management of this risk.

In 2021–22 we expect to introduce our new investment management system and begin the de-commissioning of our existing grant management system. We have actively risk managed the development of the new system through extensive testing with customers and internal users, managed suppliers and developers accordingly and maintained effective control of the data integrity, security and protection.

We will continue to be flexible and responsive throughout the year to all risks and ensure that we effectively manage those risks at all levels across the Fund.

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. Early in 2020 we refreshed the strategy to bring it more closely into alignment with the Strategic Funding Framework 2019–2024, which covers our expenditure of funds derived from the National Lottery – with a new priority to support heritage through the COVID-19 pandemic, and a stronger emphasis on playing our part in tackling climate change, and involving and connecting a wider range of people in heritage.

In March 2020 we suspended our normal National Lottery grant-making to focus on providing emergency support to organisations working in heritage affected by the pandemic. Alongside a £50million Heritage Emergency Fund and other measures to sustain organisations through the crisis, we have made strong progress in delivering the corporate strategy in 2020–21. We played a key role in delivering the UK

and devolved Governments' unprecedented recovery packages for heritage, distributing a total of £188million additional awards funded by grant-in-aid.

We supported DCMS's business case to the Treasury with evidence of the financial impact of the crisis and have delivered (in partnership with Historic England) in England: the Culture Recovery Fund for Heritage phase 1, a £88million package of cash-flow support for organisations through to October 2020. In addition, there was £15million for a Heritage Capital Kickstart Fund to enable current projects delayed by COVID-19 to restart, and £2million to uplift two existing sector business support and digital skills programmes. As the impact of the pandemic continued, this was followed by the Culture Recovery Fund for Heritage phase 2, £42million in ongoing recovery support, and in March 2021 a further phase of £40million was agreed to sustain organisations affected by closures and social distancing through to December 2021. As part of the recovery package, DCMS also intends to contribute an additional £20million to the National Heritage Memorial Fund to secure the future of outstanding heritage assets in England put at risk due to organisational failures as a result of the COVID-19 crisis; £16million of this had been received by the end of the financial year and placed in our endowment fund – the other £4million is still subject to formal approval.. This £20million is in addition to £20million committed by NHMF trustees for this purpose, with a predicted need for this support UK wide through to at least 2023.

Throughout the crisis, organisations working in land and nature (which was not eligible for Culture Recovery Fund support) made the case for needing project funding to sustain progress towards the UK's climate goals and to enable non-governmental organisations (NGOs) to continue operating. We have worked in partnership with the Department for Environment, Food and Rural Affairs (DEFRA) to deliver a £40million Green Recovery Challenge Fund in England, with a second £40million phase launched in March 2021. With the Welsh Government, we have delivered a Green Recovery Capacity Building programme (£1m) and have agreed to distribute the £9.8million Nature Networks Fund starting in spring 2021, in addition to a further '15 minute heritage' grants scheme (£680,000).

In Northern Ireland we have distributed a £5.5million Heritage Recovery Fund, as well as £1million for a Shared History Fund and £200,000 for a community heritage fund.

Our previous investments in two impact funds, the Heritage Impact Fund (with the Architectural Heritage Fund) and the Arts and Culture Impact Fund (with Nesta and others), continue in delivery as part of our strategy to lever additional investment into the sector

and encourage organisations working in heritage to diversify their income streams. In November 2020 we launched a Resilience and Recovery pilot loans programme, offering a flexible repayable finance option for organisations seeking to re-set their business operations for recovery from the impacts of the pandemic, and agreed to make seven loans totalling £759,000, repayable at zero interest over a five-year term. These loans will be made using National Lottery-derived funds.

As part of our corporate strategy ambition to inspire, lead and resource the UK's heritage, in February 2020 we appointed the Young Foundation as our innovation partner to design and model the most appropriate and effective innovation framework to identify and prioritise interventions that will address key innovation challenges and opportunities facing the heritage and cultural sectors through the recovery from COVID-19. We expect to launch an innovation competition in 2021 to deliver interventions that will have a long-term impact at sector and system scale.

We anticipate continuing delivery of funds on behalf of Governments during 2021–22 both to support sector recovery and where our grant-making expertise and reach mean we are ideally placed to achieve a wide range of positive outcomes for heritage and communities. Later in 2021 we will develop a new corporate strategy, building on the 2020 refresh, and running through to 2024, the end the current Strategic Funding Framework period.

Our emergency programmes

During the year, Trustees were pleased to be able to make a contribution to alleviating the struggle that many heritage bodies faced through the pandemic. We distributed funds on behalf of our sponsor department, the Department for Digital, Culture, Media & Sport (DCMS), as well as the Department for Environment, Food and Rural Affairs (DEFRA), the Welsh Government and the Northern Ireland Executive. The programmes were:

The Green Recovery Capacity Building Scheme

In late 2020, the Welsh Government launched a revenue grants scheme to help environmental non-governmental organisations recover from the impact of the COVID-19 pandemic and subsequent lockdowns. Many organisations had suffered as a result of loss of activity revenue, and from the time, dedication and commitment of staff that had to be furloughed. As a response, the Welsh Government put together a grants package to help organisations address sustainability issues and plan for the future. It was a one-off programme of grants, but one that has spawned a further programme in 2021–22.

A total of 24 organisations shared £920,000 to develop business plans, fundraising and volunteer

Report of the Trustees and Accounting Officer

involvement strategies, and prepare “shovel-ready” projects to aid recovery and resilience. Organisations both large and small benefitted, with the grants ranging from just £14,000 through to £100,000.

15-Minute Heritage Grants

We worked in partnership with Cadw, the Welsh Government’s historic environment service, to develop the 15-Minute Heritage grant programme and distributed £679,800 of grants (86% through Welsh Government funding and 14% through our National Lottery money). The programme aims to help people strengthen the connections they have with their local area through ideas such as creating new walking trails; window displays; digital resources or interpretive panels.

299 applications were received and 84 applications were awarded funding across Wales. Payments were made up-front and all projects are due to complete by July 2021.

The Culture Recovery Fund for Heritage

In July 2020 the Department for Digital, Culture, Media and Sport (DCMS) set up the Culture Recovery Fund, a £1.57billion rescue package to safeguard cultural and heritage organisations across the UK from the economic impact of COVID-19. One of three Culture Recovery Fund strands, the Culture Recovery Fund for Heritage is a joint grant programme being delivered in partnership by Historic England and NHMF. Grants have been awarded to organisations and businesses that own, work with or manage heritage in England and range from £3,000 to £3million.

During the year, two rounds of funding have been delivered. The first round was an £88million fund, which opened to applications in July 2020, with awards announced in October and November 2020. In total, 858 applications were received with a grant request of £137.3million. 508 awards were made with a total value of £80.3million. Grants were awarded to cover the period October 2020–March 2021. In January 2021 grantees were offered the chance to apply for an extension to their grant in order to make use of a programme underspend, created as a result of the on-going restrictions put in place by governments in response to the pandemic. As a result, a number of projects will continue delivering Culture Recovery Fund for Heritage first-round activity up to June 2021.

The second round of funding opened to applications in January 2021 with an initial budget of £36million. 1,068 applications were received with a grant request of £93.3million. DCMS increased the budget for the programme and 473 awards were made totalling £42million. Grants awarded in this second round will cover the period April to June 2021 and support organisations to transition towards full reopening.

At the most recent UK government budget, a further £300million was allocated to support the cultural sector bringing total UK Government support for the arts, cultural and heritage sectors to over £2billion through the Culture Recovery Fund. The Fund and Historic England will continue to work with DCMS to support the distribution of the heritage portion of this funding.

Heritage Recovery Fund

We have distributed £5.7million through the Heritage Recovery Fund on behalf of Department for Communities (DfC) of the Northern Ireland Executive to help the sector recover from the pandemic and become more resilient. The Heritage Recovery Fund is part of the £29million which DfC announced in September 2020 to support culture, language, arts and heritage sectors, impacted by the COVID-19 pandemic.

The DfC minister has acknowledged the substantial contribution that these sectors make to the local economy, the quality of life, health and wellbeing, in the shaping of people’s standing as a place to live, work and visit, and they have a vital part to play in delivering social renewal for communities and people impacted by COVID-19.

The Fund had two strands: one for individuals (indicative budget of £500,000) and one for organisations (indicative budget of £5million) although there was flexibility to wire money between the two strands.

We received 115 applications seeking £6.7million. The individuals seeking funding were a mixture of tour guides, heritage consultants assisting with heritage activity and project planning, conservators, a stone mason, a copper smith, heritage educators and a banner painter. Their plans for resilience and recovery have the potential to engage with a diverse range of audiences, develop a range of heritage resources and to focus on the potential of digital for their business.

Community Heritage Fund

The Community Heritage Fund aimed to support small-scale projects in Northern Ireland which help connect communities to the heritage in their local area. Projects help people connect with and benefit from the heritage located on their doorstep such as buildings, monuments, landscapes, parks and sports grounds. Through sharing stories about the everyday places and finding out about the past, we strengthen our connections with the community around us.

The Fund was open for applications in November and December 2020. We received 74 applications seeking £636,200 and made 30 awards totalling £241,900.

Shared History Fund

The Shared History Fund is a £1million fund that we distributed on behalf of the Northern Ireland Office to mark the centenary of the establishment of Northern Ireland in 1921. The Shared History Fund supports organisations through projects that:

- mark the centenary in a spirit of mutual respect, inclusiveness and reconciliation, in line with the Principles for Remembering
- facilitate local and national awareness of the centenary of Northern Ireland, and of the United Kingdom as we know it today
- will deliver in 2021 or by the first quarter of 2022
- are accessible, taking into consideration how the activity will be inclusive of different audiences and demographics
- have appropriately considered and contingency planned for how public health restrictions relating to COVID-19 may impact any in-person events. Organisations have been asked to factor in assumptions about social distancing in line with the regulations in the relevant jurisdiction
- encourage reflection, engagement and exploration of different perspectives on a century of life in Northern Ireland

The Shared History Fund opened for applications in November 2020 and closed in January 2021. We received 174 applications seeking £5.9million.

Other new programmes

In late 2019, the Welsh Government launched two environmental initiatives, Local Places for Nature and National Forest (Community Woodlands) in support of the First Minister's manifesto to support environmental growth. By mid-2020, NHMF had agreed to manage, and contribute to, the schemes to assist in delivering our mandatory outcome of engaging a wider range of people in heritage and supporting our Lottery Strategic Funding Framework landscape and nature priority.

In its first nine months, Local Places for Nature allocated over £1million to support 'nature on your doorstep' in areas of urban deprivation helping diverse communities transform derelict play areas into community orchards, eco play areas and sensory gardens. The scheme has helped local councils change mowing practices to ensure that wildflowers flourish on roadside verges and public open spaces and 22 local railway stations are being upgraded to include green walls, roofs and planters.

The Community Woodlands' element of the National Forest has been allocated £400,000 to restore, enhance and create woodland areas. While it is very much about trees, the scheme enables creation

of landscape and habitats that include ponds, scrapes and open scrub. Connecting restored ancient woodland with hedgerows and new planting has been supported on a country park being developed on the site of old coal mine workings, at a much contested urban reservoir site saved by the local community from housing developments and planting a new woodland on an old landfill site.

Both these scheme continue in 2021–22, with the aim of distributing a further £3million to bring nature and people together.

Going concern

The accounts have been prepared on a going concern basis. This is because:

1. Assets significantly exceeded liabilities at the date of the statement of financial position;
2. Trustees have set a grant award budget for 2021–22 that is not expected to alter that position;
3. We have not signed up to deliver any emergency programmes that will prove unduly onerous in financial terms.

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. We continue to 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 21. Our most significant indicator was as follows:

Indicator (for standard awards only)	Outcome in 2019–20	Outcome in 2020–21
NHMF costs will be under 5% of grant-in-aid	Met (4.7%)	Met (3.9%)

Our activities in the year – distributing emergency programmes on behalf of central government bodies – would have a significant impact on the above figure. Instead of receiving grant-in-aid of around £5million, which is what happens in a normal year, we have actually received over £183million. Trustees are pleased to note that they met this target in an exceptionally challenging year.

If we exclude our work distributing emergency programmes, then the percentage rises to 5.5%. It is disappointing that this cost is above the target. Trustees hope that this figure will fall in 2021–22 once the impacts of the pandemic recede.

Performance analysis

NHMF operates two funds: its original grant-in-aid fund (NHMF) and its National Lottery distribution activities (the National Lottery Heritage Fund). It is required, by the accounts' direction of the Secretary of State for DCMS, to account for these activities separately and so no consolidated accounts are prepared. This review discusses solely the activities of NHMF's grant-in-aid work.

The purpose of this section is to discuss the performance of NHMF in distributing funds derived from DCMS and other government bodies in 2020–21. The analysis below discusses highlights of the year including significant movement on the Statement of Comprehensive Net Income and the Statement of Financial Position as well as some key performance indicators.

At the beginning of this financial year, in response to the impact of the COVID-19 pandemic on the UK's heritage, Trustees took the decision to reserve this year's grant-in-aid to add to an allocation of £15million from NHMF's endowment as a fund to form NHMF's response to the crisis. This fund was reserved to safeguard nationally important heritage that emerges as being at risk due to the impact of COVID-19. We originally envisaged launching this during 2020–21, however as other sources of government support were launched through this year it became clear that the need for our funding will fall later, into 2021–22 and beyond.

In order to reserve this funding, Trustees agreed that normal NHMF business should pause during this financial year, except where urgent cases arose of nationally important heritage at risk of loss. Over the year four applications that met this standard of urgency were awarded grants totalling £2,002,500.

NHMF can provide grant-in-aid support for the acquisition of items of nationally important heritage at risk of loss to the UK and whose export has been temporarily deferred. Of the urgent applications awarded grants this year, two were export-deferred cases. The polar sledge and flag belonging to Dr Eric Marshall, from Shackleton's British Antarctic Expedition (BAE) 1907–09, are rare survivals testifying to the challenges of polar exploration.

We supported their acquisition by the National Maritime Museum and the Scott Polar Research Institute, acting in partnership, who will maintain the unique linkage between these two items through online interpretation and content.

We also supported the acquisition of the export-deferred Armada Maps for the National Museum of the Royal Navy. As contemporary records of the Armada, these maps are exceptionally rare. The ten individual maps illustrate key stages in the 1588 naval engagement, depicting moments including the capture of the San Salvador, the pursuit to Calais and the fireship attack. Dating from the immediate aftermath of the Armada, the enigmatic origins of the maps hold great potential for research. The National Museum of the Royal Navy also has ambitious plans for engaging people with the maps and the history they illustrate, including a touring exhibition following the coastal route of the Armada.

The two remaining urgent cases NHMF supported this year were for nationally important artworks, both of which were offered under the Acceptance in Lieu scheme where payment of a hybrid element was necessary. Jacques Tissot's haunting and intimate painting *Quiet* depicts the artist's long-term partner Kathleen Newton in the garden of the London house they shared. Painted in c1881, just a year before Kathleen's death in the final stages of tuberculosis, the painting hints at the social challenges the unmarried couple faced, holding great resonance for contemporary audiences. National Museums Northern Ireland will explore these themes through their wide ranging engagement plans for the painting.

We also supported the hybrid element for the Acceptance in Lieu acquisition of Ben Nicholson's *White Relief (Quai d'Auteuil)*, 1935, for the Hepworth Gallery, Wakefield. Owned by the artist's daughter, this relief is acknowledged as one of Nicholson's seminal works, it also conveys the sculptural influence that Barbara Hepworth brought to Nicholson's art as they began their romantic relationship. The collections at the Hepworth Gallery will provide a rich and appropriate context for the illustration of these artistic linkages.

During this year we also marked NHMF's 40th anniversary, with a series of media moments

Acquisition	Applicant	Awarded
Drawings of the Armada Maps	The National Museum of the Royal Navy, Portsmouth	£212,800
The polar sledge and flag of Dr E Marshall	National Maritime Museum, London/ Scott Polar Research Institute, Cambridge	£204,700
<i>White Relief (Quai d'Auteuil)</i> by Ben Nicholson	Hepworth Gallery, Wakefield	£1,495,000
<i>Quiet</i> by James Tissot	National Museums Northern Ireland	£90,000
Total standard grants awarded		£2,002,500

highlighting the outstanding collection of UK wide heritage safeguarded by the Fund across 40 years. We redeveloped the NHMF website in conjunction with this; launching a refreshed and expanded site in December 2020 alongside the media activity.

NHMF was also successful in securing the allocation of up to £20million from the contingency of the Culture Recovery Fund for Heritage. As the Cultural Assets Fund, this will be launched and delivered with NHMF's own allocation of £20million as a UK-wide fund for nationally important heritage at risk due to the impact of COVID-19. The Cultural Assets Fund is funding for England; NHMF's own funding allocation will enable balance across the UK. This combined fund will be launched early in 2021–22 and will span into 2022–23, enabling NHMF to respond when nationally important heritage is most at risk.

A list of standard grants awarded is shown on page 18. Total standard grants awarded came to just over £2million. In addition, we made awards of £188million as part of various emergency and other programmes on behalf of other funders, as follows:

Programme name	Amount awarded (before de-commitments) £'000
Standard Memorial Fund activity	2,003
Culture Recovery Fund 1	80,312
Culture Recovery Fund 2	42,024
Capital Kick Start	14,998
Green Recovery Challenge Fund 1	37,810
Various programmes on behalf of the Welsh government	2,781
Various programmes on behalf of the Northern Ireland Executive	6,558
Digital programmes	1,075
Total	187,561

We received grant-in-aid of £183.287million in the year (2019–20: £6.27million). £5million was our standard annual grant, but we received further sums from DCMS to operate its emergency funding programmes and those of other departments of the UK and devolved administrations.

Overall, the balance on our income and expenditure account rose by £8million despite the level of our grants awards being £5million higher than the grant-in-aid that we received. Our decision to switch our endowment fund from the Charity Multi-Asset Fund to the Responsible Multi-Asset Investment Fund (both run by Cazenove) triggered the liquidation of our fair value reserve or, to put it another way, we made a big profit on the disposal of the investments. Hence, the sharp reduction in the value of our fair value reserve, from £12.8million down to £3.6million.

The return on the endowment fund in 2020–21 was a rise of 27.3% (2019–20: 4.1%). This is in sharp contrast to returns available from bank interest (0% interest for much of the year) and the National Lottery Distribution Fund (0.1%). This return reflects the optimism of world stock markets as vaccines are rolled out and governments increase spending.

Our operating costs rose significantly. Comparison with 2019–20 is pointless as the Fund became a very different beast in the year with our distribution of a number of emergency and other special programmes on behalf of other bodies.

Non-operating income varied markedly from 2019–20. As previously mentioned, the switch of the endowment fund generated a large profit, which is disclosed in the Statement of Changes in Taxpayers' Equity. On the other hand, interest received fell alongside market interest rates and distributions fell following the endowment fund switch. We switched from income-generating units in the Charity Multi-Asset Fund to capital accumulation units in the Responsible Multi-Asset Fund – the distribution received represents income earned from before the switch. The reason for switching to capital accumulation units was because we anticipated drawing down significant sums from the endowment fund to support our Memorial Emergency Fund (MEF). As it turned out, the launch of the MEF was delayed until 2021–22 because there were so many other emergency programmes being delivered in 2020–21. The draw-down of funds from the endowment fund (perhaps up to £18million in the next couple of years) will mean that the value of the endowment fund will fall below its target level – hence the capital accumulation units to help claw its value back to the target.

The value of investments in the endowment fund increased from £39million to £64million. There are two reasons for this; the afore-mentioned return on investments of 27.3% coupled with DCMS providing us with £16million at the end of the financial year and requiring us to place this in the endowment fund. This £16million (and, we anticipate, another £4million in 2021–22) will be coupled with our Memorial Emergency Fund.

Our cash balances have significantly increased as a result of the huge rise in our activity. We drew down a substantial amount of grant-in-aid, but were over-optimistic as to the speed at which grant payments would be made for our various emergency programmes. We anticipate that the cash balances will rapidly decline as grantees request the awards made in 2020–21 – for example we awarded £42million from the second phase of the Culture Recovery Fund in March 2021; the majority of payments for this will be made in early 2021–22.

Report of the Trustees and Accounting Officer

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 both 2019–20 and 2020–21). The Fund has achieved some of its targets for the year, but we must recognise the impact that the pandemic had on our ability to deliver an effective service to our applicants and grantees (see table on page 21).

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 2020–21 the average age of invoices paid was ten working days (2019–20: nine working days). Over 92% of invoices were paid within 30 calendar days (2019–20: 91%).

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 2021, the figure was 30 days (2019–20: 41 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

Introduction

Sustainability has been integral to the Fund's operations and approach for many years. Our National Lottery Strategic Funding Framework outlines our commitment to requiring all applicants for Lottery funding to demonstrate a positive impact on the environment and "Playing our part in tackling climate change" is a key outcome of our corporate strategy.

We have adopted the Joint Heritage Sector Statement on Climate Change, committing to reach net-zero emissions by 2050. For our own operations, we have committed to reach net-zero by 2030. To help us on this journey, we have appointed a Climate Change Manager, developed a staff engagement plan and incorporated sustainability into our decision making regarding the upcoming return to offices.

2020–21 has seen the Fund support central government in the distribution of £40million of

funding as part of the Green Recovery Challenge Fund. In Wales we have supported the Welsh Government to distribute funds to 27 Local Places for Nature projects. This is in addition to four Community Woodland grants; further extending our reach and support of improving and increasing our natural environments.

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

Greenhouse gas emissions

Our utilities use and business travel have drastically reduced this year as a result of the coronavirus pandemic (see table on page 21). We have not occupied our office space for the duration of the 2020–21 financial year and travel for site visits and other business requirements has been strictly limited, in line with wider government guidance. The resulting energy is the baseline consumption of our offices. We have adapted our methodology and as such have provided re-stated greenhouse gas emissions for previous years to provide a year-on-year comparison.

Our measurement and reporting approach has been updated to provide a more accurate baseline and to improve data transparency. Where possible and relevant, we have included apportioned energy consumption of communal office spaces. Additionally, we have incorporated data from hotel stays, water use and waste disposal into our scope 3 greenhouse gas emissions.

Our data is limited by the information provided by landlords. Where there is less confidence in the information, we have chosen to rely on emissions and energy data given in the energy performance certificates (EPCs). Real data has been used for our offices in Leeds, Cambridge, Cardiff, Belfast and Nottingham. Estimates based on EPCs have been used for Edinburgh, Exeter, Manchester and Birmingham. Similarly, information about the costs of our energy use is restricted by the amount and depth of data provided by landlords. Consequently, expenditure costs in the table have been combined into one value. It is the same story for what happens to our waste; our landlords are responsible for disposal and so we are unable to provide a detailed breakdown on what happened to it.

Very few of our office spaces use natural gas for heating with most using electricity for heating and cooling. From those offices which have provided real data, our London office is the only one which uses gas for heating.

Many of our offices operate on a serviced office agreement, this benefits our environmental impact,

Key performance indicators by year

	Target	2020–21	2019–20	2018–19	2017–18	2016–17	2015–16
Application processing times (months)							
– urgent applications	3	0.7	1.2	0.6	1.2	1.0	0.9
– non-urgent applications	6	See note 1	2.6	0.7	2.3	4.7	0.9
Publicising decisions (working days)							
– post decisions on website	14	See note 2	See note 2	14	20	20	20
Grant payment (number of working days after payment request)							
– standard grants	15	21	12	11	8	2	4

Note 1: There were no non-urgent applications in the year. No targets were set for the speed of processing emergency programmes and so we have not reported upon them. Most emergency programmes had only one or two decision dates and so processing was geared up to bringing applications to those decision-making meetings.

Note 2: We no longer collect this information. Furthermore, 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 2021–22

Greenhouse gas emissions

		2020–21	2019–20	2018–19
Greenhouse gas emissions (tonnes CO ₂ equivalent)	Scope 1 emissions (tCO ₂ e)	14	50	148
	Scope 2 emissions (tCO ₂ e)	36	203	73
	Scope 3 emissions (tCO ₂ e)	9	167	142
	Total gross emissions (tCO₂e)	59	420	363
Energy and water consumption	Electricity (kWh)	58,301	794,149	257,464
	Gas (kWh)	76,429	270,794	805,341
	Water (m ³)	2,434	4,820	3,455
Expenditure (£'000s)	Utilities (inc. service charges)	278	589	476
	Business travel (inc. accommodation)	2	486	535

Note: figures for 2018–19 and 2019–20 have been restated in line with the methodology below. This does not affect financial data.

Waste

		2020–21	2019–20	2018–19
Waste (tonnes)	Hazardous (inc. WEEE*)	0.3	–	–
	Landfill	–	124	23
	Energy from waste	1.4	–	–
	Mixed recycling	0.3	26	–
	Total waste	2	150	23
Waste expenditure (£'000s)	Total waste (inc. cleaning)	19	48	24

* WEEE = waste electrical and electronic equipment

Finite resource consumption

		2020–21	2019–20	2018–19
Finite resources	Water (m ³)	2,434	4,820	3,455
	Paper use (sheets)	–	172,500	500,000
	Paper use (tCO ₂ e)	–	0.8	2.4

Report of the Trustees and Accounting Officer

allowing us to increase and decrease our leased space as required and to seek out buildings with the highest rated EPCs. Conversely serviced offices remove our ability to directly impact our energy supply and to invest in energy efficiency measures. We will embed EPC and electricity supply criteria into future office lease agreements and seek out landlords who align with our own net zero by 2030 ambitions.

In 2019–20 we travelled over 500,000 miles across the UK (reduced from 1.8million miles the previous year), as a result of movement restrictions this year this has fallen to less than 14,000 miles whilst maintaining high levels of productivity. We know that travel will increase in 2021–22, however, we will use our experience of working remotely to inform our approach going forward and will champion public transport and low carbon travel in our policies and strategies.

We have not included homeworking greenhouse gas emissions in our reporting as these currently fall out of reporting guidelines. We will review this on an annual basis, to ensure we reflect best practice. Concurrently, we are monitoring estimated electricity usage from devices, which are likely to be the largest additional contributor to the environmental impact of homeworking, and will use that data to inform future procurement.

Waste

All working has been home-based for the entirety of the year; as such waste is close to zero (see table on page 21). We have, however, continued to update our IT equipment, with 234 laptops being replaced. These replaced computers were donated for re-use for children without devices at school, diverting WEEE waste from landfill.

We will be engaging staff when we return to our offices to identify opportunities for waste minimisation, leading to a Waste Management Strategy.

Finite resource consumption

Water usage has decreased substantially (see table on page 21). For hygiene and safety reasons, systems have been routinely flushed resulting in consumption of 2,434m³. Water is used to service toilets and office kitchens. We will work with landlords to update these facilities where possible and implement water-saving measures. Costs for water are incorporated into total utilities charges provided above.

We do not have any data for paper use this year due to office closures. Whilst we know that some staff are utilising printers at home, some of which are provided by the Fund, we anticipate that consumption will be drastically reduced. Going forwards we are reviewing the quantity of printers available in our offices with the hope that we can continue to reduce the use of paper.

Biodiversity action planning

Our greatest reach and impact on the natural environment is realised through our land and nature projects. In 2020–21 we have invested £50million in protecting and expanding our natural environment. We ask all projects to report on their environmental performance; our guidance is available on the website of The National Lottery Heritage Fund.

Sustainable procurement

Our approach is aligned with government standards; however, we plan to improve upon our sustainable procurement policies and recognise the need to provide more sustainable procurement guidance. Our first step will be to embed sustainability requirements into future decision making for office lease agreements.

Climate change adaptation

We are in the process of developing a Sustainable Development Strategy. Our approach and action plan will ensure that our policies with long term implications are robust in the face of changing weather, extreme events and sea level rises from climate change. The strategy will draw upon existing guidance such as the Climate Change Risk Assessment, UK Climate Projections and the National Adaptation Programme.

Rural proofing

The National Lottery Heritage Fund has a national reach, supporting projects all across the UK. Many of our projects are in rural areas and our investment helps to create jobs and support communities. We recognise the challenges which rural communities face, including, representation, access to public transport and availability and equality of paid work. These are areas which we already support our grantees to address in their applications; however, rural proofing is not a formalised aspect of our decision making. This is something we will look to review as part of our wider strategy work in the next 12–24 months.

As an organisation we support our colleagues to work nationwide and expect to see a larger shift to home working in the coming years. We don't yet know what post-pandemic workplaces will look like, and we are keen to explore different and hybrid ways of working. This shift could further support recruitment of employees living in more rural areas.

Sustainable construction

As an organisation we are not responsible for new construction or any capital assets.



Ros Kerslake CBE
Chief Executive and Accounting Officer

2 July 2021

Accountability report

The accountability report has three sections:

- a corporate governance report – a discussion of our governance structure and its achievements in the year under review.
- a remuneration and staff report – this details remuneration for trustees and senior management as well as pension arrangements for staff. In addition, we discuss our achievements in equality and diversity of staff.
- a parliamentary accountability and audit report – a report by our auditors on the results of their audit of our accounts for 2020–21 in line with accounting and auditing standards.

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

Dr Simon Thurley CBE

from 1 April 2021

René Olivieri

Interim Chair from 1 January 2020 to 31 March 2021

Trustees

Maria Adebawale-Schwarte ¹

Baroness Kay Andrews OBE

Jim Dixon

Dr Claire Feehily ¹

Sarah Flannigan

Perdita Hunt OBE DL ¹

Ray Macfarlane

Mukesh Sharma MBE DL

from 17 August 2020

Dr David Stocker

Chief Executive

Ros Kerslake CBE

¹ Member of Audit and Risk Committee

Details of other senior managers can be found in the remuneration and staff report starting on page 34.

The gender split of our staff (including those on fixed term contracts) working on our exchequer-related activities and our trustees at 31 March 2021 on a headcount basis was as follows:

	Male	Female	Total
Trustees	4	6	10
Directors	1	3	4
Staff	50	121	171

Excluding our work on emergency and other special programmes, we had two members of staff working on standard Memorial activities at the year-end. All the above staff also worked on Lottery-distribution activities. We also had 159 staff at the year-end who worked solely on our Lottery-distribution activities. Their gender split is incorporated within the staff gender split reported in our Lottery distribution 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.

Future developments

We will continue to deliver on our National Lottery Strategic Funding Framework in 2021–22 and expect to review at the mid-point (autumn 2021) the objectives we had set ourselves for the five year funding period, alongside the introduction of a new corporate strategy, taking account of the sustained impacts of the pandemic for organisations working in heritage and for our own organisation. Our business plan for 2021–22 sets out five core priorities:

1. **Delivery of our National Lottery and grant-in-aid programmes**
Our National Lottery project funding will continue with funding offered from £3,000 to £10,000, £10,000 to £250,000 and £250,000 to £5million with a focus on the prioritised outcomes outlined in our Lottery distribution accounts. We will make Lottery grants of over £5million under our Heritage Horizon Awards designed to support exceptional projects delivering transformation, collaboration and innovation at scale, at sites across the UK. We will continue to deliver our Digital Skills for Heritage campaign which is equipping organisations of all sizes to accelerate their grasp of new opportunities offered by working digitally. We will develop our thought leadership with new campaigns focused on museum and archive collections (known as Dynamic Collections), introduce place-based initiatives to enhance our support for communities in

Report of the Trustees and Accounting Officer

collaboration with other leading cultural agencies, and nurture innovation through a new fund developed in partnership with the Young Foundation and further investment in our Future Parks Accelerator. We will continue to encourage and incentivise organisations working in heritage to diversify their income and develop their financial skills, building on our existing social investments and pilot loans programmes.

We will work with Governments across the UK to continue to deliver the support the sector needs to recover. We will deliver the second phase of the Green Recovery Challenge Fund on behalf of DEFRA, the second, and we hope, third stages of DCMS's Culture Recovery Fund as well as other funds for the devolved administrations – we will create new funding partnerships where the opportunities arise. Internally, we will develop and improve our business and operating model and processes to support the effective delivery of National Lottery and grant-in-aid funds simultaneously, ensuring we have the right structures and resources across the Fund.

2. Implement a new Investment Management Service

We will replace the current grant management system with a modern more flexible grant management service offering a smoother, easier application process and enabling our staff to work more efficiently. A new application portal will be introduced from the spring, supported by enhanced online information and help for customers, and a comprehensive staff training programme. Following data migration, we will continue to build our data warehouse and improve our data reporting capabilities. Our business will be more data driven and we will be better able to evidence our impact through the development of a new impact framework, embedded in our assessment process, to support our decision making.

3. Stakeholders and external partners

We will continue to strengthen and deepen our work with stakeholders and other key partners that have been intrinsic to our work supporting and sustaining the sector in 2020–21, both UK wide and within our England areas and Scotland, Northern Ireland and Wales. Through the National Lottery Forum, we will continue our collaborative work with other National Lottery distributors to strengthen our impact focused on place, to improve data and reporting on National Lottery grants and to contribute to demonstrating the collective impact of the National Lottery for the UK's national life. We will explore new partnership opportunities, in particular in social investment and innovation, and continue existing social investment partnerships with the Architectural Heritage Fund and Nesta. We have begun the preliminary work on our next Corporate Strategy for beyond 2021.

4. Equality, diversity and inclusion

We will follow up our Equality, Diversity and Inclusion Review with an implementation plan for our culture, workforce, grants and governance as well as existing work in this area. We will show progress in the Fund becoming more equal and inclusive.

5. Progress and embed culture change

We will conclude work on our culture and values across the Fund and embed a new behavioural framework into day-to-day work and business. Our recruitment and performance frameworks will ensure that our values and behaviours are central to delivering objectives

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. Other key stakeholders include the funders of our emergency and other programmes – the Department for Environment, Food and Rural Affairs, the Welsh Government and the Northern Ireland Executive. 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 the early 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 which included April 2020, Eilish McGuinness acted as Accounting Officer.

Introduction

This governance statement is a summary of the arrangements for the stewardship of the National Heritage Memorial Fund, including how we manage risk and how we comply with the HMT Code of Good Practice for Central Government.

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 awards and National Lottery grants.

COVID-19 crisis

The crisis from COVID-19 has, like all other organisations, affected us significantly during 2020–21.

The crisis has had a material impact upon the sector including:

- loss of income from reduced visitor numbers, membership cancellation, commercial income;
- reduced sponsorship and/or partnership funding;
- delays to project in delivery;
- increases in costs to meet public health requirements and,
- adverse impacts on business delivery – furloughing of staff, the need to redirect and reprioritise resources etc.

That has, in turn, made our operating environment much more challenging and demanding and we have had to make a step-change to respond to those changes.

We established critical data and insight on the early impacts allowing us to launch the Lottery funded Heritage Emergency Fund. We then used that data to support the Culture Recovery Fund for Heritage from DCMS and the Green Challenge Recovery Fund from DEFRA in England, as well as other investments in other parts of the UK.

In a year when cashflow and liquidity was key to organisation's health and survival we were able to inject in excess of £400million into the sector to support projects, help communities, project jobs and ensure the survival of large parts of the sector that might otherwise not succeeded in navigating the crisis.

I am pleased to report that our governance arrangements from business continuity to organisational design to risk management to decision making and of course grant making has allowed us not just to operate through the crisis but deliver a wide range of responses across the UK that have been pivotal in protecting the heritage sector.

The governance of the Fund has proved both resilient and flexible throughout the whole of the year and the crisis to date.

Report of the Trustees and Accounting Officer

Governance Review

As outlined in this statement last year we commissioned an independent review of our internal governance in 2019–20. The Board expressed support for the findings and recommendations of the review and the Legal and Governance Team prepared an implementation plan for the main recommendations. Since then we have implemented nearly all of the recommendations although some have been delayed by the crisis.

The main areas of recommendations adopted were as follows, along with a note of our progress:

- to move to a smaller number of Trustees in practice (9 or 10) – this is now in hand, several Trustees have retired, and our sponsor department (DCMS) has a recruitment campaign in place for new Trustees. We expect the new Trustees to be in place by late summer/early autumn.
- to have Trustees chair English Area Committees so that there are similar arrangements with Scotland, Northern Ireland and Wales Committees – these will be covered by the recruitment campaigns above.
- develop skills matrices for Trustees and Committee members covering business, corporate governance and heritage skills – these are now completed and are being used in our own and DCMS led recruitment campaigns.
- refresh Terms of Reference for the Board and its Committees – these are now completed and being applied.
- review, in conjunction, with DCMS the remuneration of Trustees to assist in developing improved plurality and diversity across Trustees – this is complete and new arrangements came into practice on 1 April 2021.
- to undertake a similar but internal review for Committee members remuneration with the same objective – this is also complete and new arrangements came into practice on 1 April 2020.
- improve stakeholder engagement, mapping and improve the integration of Trustees and Committee members into these – this is complete, the interim chairs of the English Areas have attended Board during 2020–21, alongside improved communications across all governance bodies.
- improve induction and diversity, equality and inclusion training as well as performance appraisals for Trustees and Members – this is partially completed and there has been a successful recruitment approach for recent committee members which we will replicate in future campaigns. Specific EDI training for the Board will take place early in 2021–22.

- close down Finance, Staffing and Resources Committee and move its functions to the Board and Executive – the committee has been closed, although there remains some finalisation of delegations which is in hand and,
- create a Nominations and Remuneration Committee to oversee Trustees roles, remuneration and support appointments – this is completed, and the committee met in 2020–21 to oversee committee member transition and recruitment matters.

Governance structure

The governance structure in NHMF during 2020–21 is set out in the diagram below. The Board and its sub-committees are as described, alongside the Executive and the Strategy and Performance Group.



Board of Trustees

The Board of Trustees is responsible for:

- giving strategic leadership and direction
- approving control mechanisms to safeguard public resources
- approving investment 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 nine 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 2020–21 were quorate.

René Olivieri was interim chair of the Fund in 2020–21 and throughout the year regular liaison meetings were held between him, the Chief Executive and senior staff. The Board is legally constituted up to a maximum of 15 Trustees including the Chair. In 2020–21 one new Trustee was appointed and one Trustee retired.

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

Attendance at the Board meetings throughout 2020–21 was as follows:

Trustee	Eligible meetings	Meetings attended
René Olivieri	9	9
Maria Adebowale-Schwarte	9	9
Baroness Kay Andrews OBE	9	9
Jim Dixon	9	9
Dr Claire Feehily	9	9
Sarah Flannigan	9	9
Perdita Hunt OBE DL	9	9
Ray Macfarlane	9	9
Mukesh Sharma MBE DL from 31 August 2020	4	4
Dr David Stocker	9	9

During 2020–21 the chairs of the English Areas also attended Board as observers.

Towards the end of 2020–21 and as we move into 2021–22 we face significant turnover in the Trustees. As well as retirements at the ends of term we have a number of potential re-appointments and recruitment campaigns – notably Trustees representing the English Areas. Role descriptions have been finalised to reflect the necessary mix of skills, knowledge and geography. It will be essential that these recruitment campaigns, run by our sponsor department DCMS, result in a new trustee body as soon as is practicable.

In the meantime we have put in place arrangements to cover the functions, delegated panels and committees of the Board over the summer of 2021.

Board composition

Of the 10 Trustees who attended the Board throughout the year 60% were female and 40% were male. 2 (20%) Trustees were from ethnic minorities.

Board conflicts of interest

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

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 attends each committee meeting with the Executive Directors of Business Delivery and Business Services – other senior staff attend as

required. The committee is supported and serviced by the Fund's Legal and Governance Team. The Fund's external auditors (National Audit Office) and internal auditors (BDO) also attend the meetings. The committee hold in camera sessions themselves before meetings and also private discussions with the auditors before the meetings.

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

The committee agreed a multi-year audit strategy with BDO upon their appointment and the reviews carried out in 2020–21 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 during the year on:

- new product development
- investment management system
- key performance measures and performance reporting
- budgeting and forecasting
- core financial controls
- environmental and sustainability
- business continuity planning

The committee meeting minutes and summary reports are shared with the Board. The committee chair also verbally updates the Board on committee business and decisions. In this way, the Board receives assurance from the work of this committee as to the effectiveness of the system of internal control and risk management practices and the quality of data received.

The committee also reviews the Annual Reports and Accounts for both the National Heritage Memorial Fund and The National Lottery Heritage Fund. During 2020–21 in addition to the above reports and accounts the committee also considered the following:

- the arrangements for risk management and business continuity during the crisis
- deep-dive examination of the Investment Management System
- fraud and alleged fraud cases including detailed fraud risk assessment and post evaluation assessment for our grant-in-aid programmes in the crisis
- procurement arrangements including any exceptions to normal procurement tenders

Report of the Trustees and Accounting Officer

Attendance at the committee meetings throughout 2020–21 was as follows:

Trustee	Eligible meetings	Meetings attended
Dr Claire Feehily Chair	4	4
Maria Adebowale-Schwarte	4	3
Perdita Hunt OBE DL	4	3
David Michael	4	3
Carole Murray	4	4

Nominations and Remuneration Committee

The committee met on one occasion during the year to discuss the options for recruiting new committee members in 2021–22 including the risks of business knowledge, skill sets and continuity of committee business. The committee is chaired by the Senior Independent Trustee and includes three other Trustees. The committee is also attended by the Chief Executive and the Executive Directors of Business Delivery and Business Services.

Attendance at the committee meeting in 2020–21 was as follows:

Trustee	Eligible meetings	Meetings attended
Perdita Hunt OBE DL Chair	1	1
Jim Dixon	1	1
Ray Macfarlane	1	1
René Olivieri	1	1

Delegated grant decision making

In 2020–21 the Board delegated some decision making for grants to a subset of Trustees acting as Board panels. This covered decisions for the following programmes:

- Parks for People (in England this was a joint panel with The National Lottery Community Fund)
- The crisis programmes funded by DCMS, DEFRA, the Welsh Government, the Northern Ireland Executive and the Northern Ireland Office

The emergency programme known as Culture Recovery Fund 1 (CRF1) was delivered in partnership with Historic England (HE). An advisory panel was set up, formed of representatives from HE and NHMF under a memorandum of understanding. The membership of this panel comprised HE Commissioners, NHMF trustees, the CEOs and executive directors of both organisations. NHMF trustees who were on this panel made grant decisions after having discussed them with colleagues on the advisory panel. There was also a CRF Oversight Board which made suggestions and recommendations and provided DCMS and others with the degree of scrutiny and involvement that they required.

The follow-up programme, CRF2, was also delivered in partnership with Historic England. A Joint Recommendation Panel (made up of Heritage Fund and Historic England representatives) met to agree recommendations on all applications. Recommendations on applications seeking over £1m were sent to the Culture Recovery Board (CRB), an independent Board convened by DCMS, for comment.

The Trustees have delegated their grant decision making responsibilities for certain types and values of lottery awards to Country and in England Area Committees. Following our internal re-organisation that came into effect in 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 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.

Trustees have also delegated grant decision making for grants under £250,000 to staff, specifically Country and Area Directors in Countries and English Areas. 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.

The Trustees also delegated grant decision making for grants in the Heritage Emergency Fund over the summer of 2020 (these were awards up to £250,000).

Executive and Strategy & Performance Group (SPG)

The Board delegate day to day management to the Chief Executive.

An Executive consisting of the Chief Executive and the three Executive Directors for each department came into effect in 2019 and has continued since. This Executive are responsible for wider strategic management issues and delivery of business in the Fund. The Executive meets weekly.

The Strategy and Performance Group consist of senior Directors and staff across all three departments and have responsibility for horizon scanning, day to day performance management and corporate planning. The SPG met regularly and in several of these meetings the Executive attended too.

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

Business continuity arrangements

In March 2020 we invoked our Business Continuity Plans in response to the crisis. The Executive met as the Crisis Management Team twice weekly to oversee the response of the Fund, interactions with stakeholders

and governments across the UK as well as support the Board.

The Business Continuity Team met twice weekly, from April to June, to implement the detailed operational aspects of the business and our response plan. The composition of this team reflected the different teams across the department and different needs in the early stages of the crisis.

Our business continuity arrangements worked as intended and there was no disruption to any part of business throughout the year.

Organisational design and structure

During the year as Chief Executive I 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 set policy directions and financial directions with which we have complied in our lottery activities. The Scottish and Welsh governments have also issued some policy directions with regard to lottery activities in those countries and we have also complied with those. We also have policy directions from DCMS for England.

We also operated 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 launched our Corporate Strategy just over three years ago, which provided for 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 our:

- Strategic Funding Framework for lottery investment
- business plans
- 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. However, in 2020–21 we invested close to £190million in grant-in-aid programmes, mainly in response to the pandemic.

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

We also undertook a substantive piece of work on our powers and authorities in the year, and we will be working alongside colleagues in DCMS in taking this forward during 2021–22.

Strategic Funding Framework

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

Decisions on over 80% of all funding by The National Lottery Heritage Fund are made in Scotland, Northern Ireland, Wales and English Areas.

Our approach includes:

- a major focus on nature, communities, and on ensuring everyone is able to enjoy heritage – three top priorities for people who responded to the consultation
- new models of investment, moving beyond grants to include loans and partnerships, designed to attract others to invest money alongside the National Lottery
- more support for commercial, sustainable approaches to tackling heritage that’s in danger of being lost
- investment and support to help heritage organisations to be more financially sustainable
- a requirement for every heritage project that receives funding to be environmentally sustainable
- simpler, streamlined and more efficient funding
- greater engagement and support in communities that have in the past been less successful securing funding
- continued support for large-scale, iconic projects over £5million

Report of the Trustees and Accounting Officer

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

- National Lottery Grants for Heritage – open programmes for any type of heritage project from £3,000–£5million
- funded and other campaigns designed to fulfil strategic needs or funding gaps
- joint funds to deliver strategic initiatives in partnership with other organisations, such as the Future Parks Accelerator partnership with the National Trust
- social investments such as impact funds and loans

This overall approach and portfolio reflects the extensive consultation exercise we undertook with National Lottery players and key stakeholders across the heritage sectors prior to the launch of the SFF.

During 2020–21 we took the difficult decision to suspend the open programmes. This was done to allow us to develop and then deliver our lottery funded response to the crisis and to provide capacity to then deliver our grant-in-aid programmes in our Memorial Fund capacity. We re-opened programmes under the SFF in February 2021 and we expect to deliver a full portfolio of lottery programmes in 2021–22 under the SFF though with a focus on specific outcomes linked to the crisis.

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 balance innovation or business change where this is needed. Our risk management processes are based upon the principles of the Treasury's *Orange Book: Management of Risk – Principles and Concepts*. The system of internal control is based on an on-going 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 2020–21, albeit adapted to fit the needs of the crisis. We adapted the approach to ensure a balance between the breadth of strategic risks and the depth of assurance needs. We provided monthly updates to the Board during the crisis covering strategic, reputational and operational risks as well as risk assessments in area like commercials, liquidity and

political aspects too. Finally risk assessments were also provided in relation to the wider heritage sector too to support our investments from both grant in aid and lottery sources. The Business Continuity and Crisis Management teams considered risks in their regular meetings during the year.

The risk registers/assessments 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. During the course of the crisis we have adapted our risk reporting to the Board and to the Audit & Risk Committee to reflect the dynamic nature of risks, the external and internal risks from the crisis, trends, patterns and forward projections of risks.

The Board also reviewed its Risk Appetite for 2020–21 and continued to reflect greater appetite for business change and the need to be responsive to the risks posed by the pandemic.

We also recognise that well thought through risk taking and innovation to achieve NHMF objectives should be encouraged. I believe that the Fund demonstrates innovation in its choice of grant awards and does not simply resort to making risk free decisions. In a time of crisis it was more important than ever to ensure that our investment reaches as widely into the community as possible be that through National Lottery or grant-in-aid funding.

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 2020–21 NHMF considered the following to be the most significant areas of risk:

- Lottery income management through the crisis alongside our liquidity exposure, long-term funding projections and the ability to fund our liabilities
- our ability to provide immediate short term cash investment into the sector ahead of wider governmental support schemes (like business loans, furlough etc.) and grant-in-aid investment programmes
- capacity and resilience within the sector to allow for such interventions to be effective
- our business continuity planning and implementation
- the wellbeing and mental health of our teams
- the challenges posed by the climate and ecological emergency
- developing the new investment management system
- understanding and managing the departure of the UK from the European Union
- ensuring our data and insight is used to optimal effect
- 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 2020–21.

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 have 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.

In 2019–20 we undertook significant work to refresh our work in this area and to align to the Government Functional Standard on Fraud (GovS013: Counter Fraud). We have improved guidance and policy in areas such as:

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

We saw a further embedding of this during 2020–21. As mentioned earlier, we recognised and understood in the very initial stages in the crisis, the imperative from governments across the UK to ensure effective early interventions and especially cash injections into the cultural and wider heritage sectors. We also recognise the wider risk appetites for this outside of the Fund and worked alongside DCMS, DEFRA etc. to meet their requirements in this respect.

We also recognised and continue to recognise the increased risk to fraud and error that this changed environment created. We continued to use our existing robust anti-fraud arrangements and built on these with new tools and services from the Cabinet Office. We are also members of an industry-wide fraud database organisation and compare information from our grantees with this database. Pre-award due-diligence checks were tightened and performed by our trained and experienced assessors on all applications as part of our assessment process to ensure the applicants were meeting the funding criteria.

Further to this, we also use the Government's due-diligence tool to conduct pre-award checks which highlights areas of risk to inform grant-making decisions. The decisions are made by a decision making panel which has clear governance arrangements in place. There were representatives from our partner Historic England on the decision making panel. Post-award checks include validating data with fraud prevention agencies, sample auditing and monitoring throughout the life-cycle of the grant. Internal guidance on post event checks was updated to ensure that the approach is followed consistently across the organisation.

Each grant programme (Lottery or grant-in-aid funded) was subject to a Fraud Risk Assessment completed by the Fund and verified by DCMS. Each programme had a post event assurance action plan which was reviewed regularly. Both the fraud and post event work have been independently reviewed for us by our internal auditor partners in BDO. Feedback from DCMS and Cabinet Office on our work has been positive and provided additional assurances.

Report of the Trustees and Accounting Officer

In 2020–21 we also assessed ourselves against the Cabinet Office Grant Maturity Model as a result of a requirement of DCMS. Part of this also required an independent review of our self-assessment, this was undertaken by BDO. Both our own assessment and that of BDO showed very high levels of compliance with the criteria set out in the model.

NHMF also has an information risk policy which is compliant with Cabinet Office guidance and the Security Policy Framework. All new staff receive guidance in information security, data protection and Freedom of Information as part their induction.

In December 2020 we again achieved Cyber Security Plus accreditation. Towards the end of the year we also undertook a self-assessment in this area against the NAO checklist model and found this provided effective assurance of our work in this area, although we recognise the ongoing and persistent risks in this area especially in the pandemic.

We also comply with the government guidance on transparency of spend, contracts etc. In 2020–21 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 overextending 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 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.

We also developed a supplementary cash flow model in 2020–21 to help plan and manage Lottery cashflow and liquidity risks throughout the year. This has worked very well and been effective in managing risks and we will continue to use this supplementary model in 2021–22.

In 2014–15, based on the main model, the Board created a Financial Framework setting out grant ratios linked to the total level of commitments, approved actual liabilities, income from the National Lottery and our balance at the National Lottery Distribution Fund (NLDF). We therefore believe that the model and the Financial Framework provide a robust basis for our grant giving. We have continued to use this approach in 2020–21 and indeed used this in modelling for our Lottery Income planning

scenarios and assumptions. We will review the key ratios in 2021–22 when we have better clarity on some of the impacts of the crisis on our longer-term financial planning and investment scope including the ratios and cash holding.

Board performance and effectiveness

The most significant activity for the Board has been oversight of the Fund's response to the ongoing crisis from both a Lottery and grant-in-aid perspective. The Board have had detailed and regular updates on all interventions and subsets of the Trustees have acted as decision makers in the grant-in-aid funded programmes in England, Wales and Northern Ireland.

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 modestly in 2020–21 – so not as much as in the past years – this has meant some reduction in the degree of churn amongst the Trustees. This allowed for effective governance of the response to the crisis. Discussions are ongoing with DCMS on the recruitment campaigns due in 2021–22 for a new batch of Trustees.

The Board are satisfied that they continue to meet the requirements of HMT Corporate Governance Code.

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 believes 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 on-going 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 currently 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. The system of internal control has operated throughout the year under review

and continued to operate up to the date that the accounts were signed.

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 and Performance Group teams 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 2021.

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 statement also reported that the number of audit recommendations has decreased relative to the overall number of reports produced.

The internal auditors upon appointment produced an overall audit strategy. Last year covered the second 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 several years ago to improve accountabilities on audit reviews and the implementation of internal audit recommendations. These have continued in 2020–21 and recommendations that were due to be implemented in 2020–21 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 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. I am satisfied as to the effectiveness of our whistleblowing arrangements.

In 2015 Letters of Delegated Authorities for all Executive Directors were introduced – setting out their delegated authorities (financial, procurement etc.) to be agreed at the start of the year to complement the memorandum at the year end. This cycle has been completed in 2020–21.

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 lottery grants are not adequate.

From November 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 CBE
Chief Executive and Accounting Officer

2 July 2021

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 reimburses travel expenses of trustees when travelling from their homes to their office of employment in London, Edinburgh, Cardiff or Belfast – although the offices were closed for the entirety of 2020–21. 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.

Our Governance Review in 2019 recommended changes to our remunerations for Trustees and for members who sit on our country and area committees. This was to improve the attractiveness of the roles, to support our drive to diversify the composition of our Board and committees and to align the remuneration with equivalent roles in other arm's length bodies.

In October 2020 we moved all of our committee members from day rates (£85 per day) to a remuneration package of £3,000 per annum. Whilst this was introduced in October 2020, it was backdated to April 2020. We have already seen the values of this in helping attract a more diverse field of candidates in the recent campaign for committee members in the North of England and we hope that is sustained in the forthcoming recruitment campaigns due in 2021.

Changes of remuneration for Trustees were approved by DCMS in 2020 and came into effect in April 2021. The Chair's remuneration has changed to £40,000 based on two working days per week (£100,000 on an annualised full time equivalent basis).

The remuneration of Trustees representing areas of England moved to £13,500 per annum as did that of the Chair of the Audit & Risk Committee; other Trustees will be remunerated at £10,500 per annum. The new rates will be brought in over the coming year based on the timings of recruitment campaigns in 2021. The overall annualised cost is expected to be neutral given the reductions in the number of Trustees. The remuneration of Trustees representing countries remains unchanged.

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.

Trustees' remuneration was allocated between NHMF and its National Lottery distribution activities on the basis of 1%:99%. The total remuneration of trustees in 2020–21 was £110,468 (2019–20: £183,147). 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 that 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.

Remuneration of the Chair and Trustees (audited information)

	2020–21 £'000	2019–20 £'000
René Olivieri <i>Interim Chair from 1 January 2020 to 31 March 2021</i>	5–10	20–25
Sir Peter Luff <i>Chair to 31 December 2019</i>	0	30–35
Maria Adebowale-Schwarte	5–10	5–10
Baroness Kay Andrews OBE	20–25	20–25
Anna Carragher <i>to 6 October 2019</i>	0	10–15
Jim Dixon	5–10	5–10
Dr Claire Feehily	5–10	10–15
Sarah Flannigan	5–10	10–15
Perdita Hunt OBE DL	5–10	5–10
Ray Macfarlane	20–25	20–25
Steve Miller <i>to 17 February 2020</i>	0	5–10
Mukesh Sharma MBE DL <i>from 17 August 2020</i>	10–15	0
Dr David Stocker	5–10	10–15
Dr Tom Tew <i>to 19 January 2020</i>	0	5–10

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, 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 2020–21 £'000	Salary 2019–20 £'000	Pension benefits accrued during 2020–21 £'000	Pension benefits accrued during 2019–20 £'000	Total 2020–21 £'000	Total 2019–20 £'000
Ros Kerslake CBE Chief Executive and Accounting Officer	145–150	140–145	57	56	200–205	195–200
Eilish McGuinness Executive Director: Business Delivery	115–120	105–110	54	182	170–175	285–290
Colin Bailey Executive Director: Business Services	120–125	110–115	45	44	165–170	155–160
Isabel Hunt Executive Director: Business Innovation & Insight from 4 November 2019	125–130	45–50*	47	19	170–175	65–70

	Real increase in pension and lump sum £'000	Total accrued pension at pension age and lump sum £'000	Cash Equivalent Transfer Value (CETV) at 31/03/21 £'000	CETV at 31/03/20 £'000	Real increase in CETV funded by NHMF £'000
Ros Kerslake CBE Chief Executive and Accounting Officer	2.5–5	15–20	277	209	48
Eilish McGuinness Executive Director: Business Delivery	2.5–5 and 0–2.5 lump sum	40–45 plus 120–125 lump sum	958	885	39
Colin Bailey Executive Director: Business Services	2.5–5	15–20	243	201	28
Isabel Hunt Executive Director: Business Innovation & Insight from 4 November 2019	2.5–5	0–5	53	15	29

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

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.

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.

Report of the Trustees and Accounting Officer

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% (2019–20: 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 2020–21 was £145,000 to £150,000 and in 2019–20 was £140,000 to £145,000. This was about 4.0 times (2019–20: 4 times) the median remuneration of the workforce, which was £36,828 (2019–20: £36,000). There were no employees who received remuneration in excess of the highest paid executive director. Remuneration ranged from £18,180 to a banding of £145,000 to £150,000 (2019–20: £18,000 to a banding of £140,000–£145,000).

The highest paid executive director was subject to the government's pay remit. This restricted the sum available to fund staff pay rises to 2.5% 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	5.5
50th percentile	4.0
75th percentile	3.4

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.

In 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 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.

There were none in 2020–21 (2019–20: nine) in the following bands:

	2020–21 Number	2019–20* Number
£5,000–£9,999	0	1
£10,000–£14,999	0	4
£30,000–£34,999	0	1
£35,000–£39,999	0	1
£40,000–£44,999	0	1
£50,000–£54,999	0	1
Total	0	9

* 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)

	2020–21 £'000	2019–20 £'000
Salaries	3,720	101
Employer's NI payments	370	11
Payments to pension schemes	757	12
Temporary staff costs	73	15
	4,920	139

Additional costs of £11,587,000 have been allocated to National Lottery distribution activities and are reflected in those accounts. Due to the way our systems operate we are not able to provide a breakdown of costs between staff on permanent contracts and those on fixed term contracts.

The average number of employees during the year working on our activities was as follows:

	2020–21 Number	2019–20 Number
Grant applications	71	2
Finance and corporate services	1	0
Strategy and business development	5	0
Communications	3	0
	80	2

The above figures are disclosed as full-time equivalents and include an average of 5 staff on a fixed term contract. The average numbers of staff are obviously distorted by the people who worked on our emergency and other programmes. Excluding those people, the average FTE in the year was two. In addition to the above staff, the average number of staff who worked on our National Lottery distribution activities, was 195 permanent staff and 16 on fixed term contracts. Temporary and agency staff have not been included in the above figures as our systems do not allow for the collection and calculation of a full-time-equivalent figure.

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 £40 (2019–20: £27) 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

Report of the Trustees and Accounting Officer

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.

No members of staff retired early on health grounds during 2020–21.

Further details about civil service pension arrangements can be found at the website 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 2020–21, employer's contributions of £756,686 (2019–20: £12,255) were paid to PCSPS and alpha at the rates set out in the following table. The large increase is due to the need for extra staff to deliver the emergency programmes.

Salary in 2020–21	% in 2020–21
£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 decreased to 1.4% in the year. This is lower than previous year and remains below the comparable public sector UK wide benchmark from the Office of National Statistics (ONS).

Part of this reduction was attributable to the reduction in the small number of long-term absences. Part of this is also likely to be attributable to the fact that offices were closed early on and remained closed in the whole of the year. COVID-19 lockdowns were in place across the UK and guidance was put in place very quickly to protect colleagues and this meant staff were less susceptible to transmissible infections generally. Part of this may also reflect that, as offices were closed and all staff worked from home, there may have been an element of under-reporting of some absences.

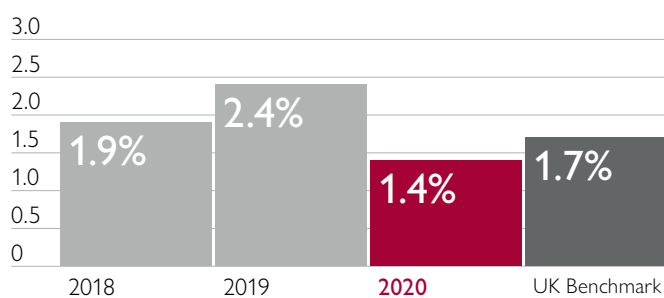
During the year we tracked staff infected or likely to have been infected with COVID-19 during the pandemic. These overall numbers remained at modest levels, although we have a very small number of staff who are exhibiting symptoms of long term COVID-19. We, of course, continue to support and

help colleagues in that situation with our Employee Assistance and Occupational Health programmes.

With the pandemic in mind, we have continued to encourage better absence reporting building on our new improved systems and processes in 2019.

As part of our response to the crisis we also introduced a comprehensive mental health and wellbeing programme of support for staff including nearly thirty initiatives to support colleagues and protect their wellbeing. In addition we also provided influenza vaccinations to all staff during the year through a corporate initiative.

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 and other similar sources.

Employee engagement and consultation

We continue to regularly engage and inform our staff in discussions on our strategic direction and operational performance. All staff receive daily news digests, weekly newsletters and intranet articles updating them with news and we have active, popular social media channels and discussion groups.

The Fund also meets monthly with our trade union partners (FDA and PCS). These build on the new cycle of meetings we set up in 2019 and have proved to be successful during this year. Further information about our trade union activity is in the section 'The Trade Union (Facility Time Publication Requirements) Regulations 2017' on page 62.

In the run up to and at the start of the crisis we ran a series of All Staff Bulletins to provide real time information on actions we were taking in terms of invoking our business continuity plans and protecting staff. Our primary aim throughout the crisis has been to keep staff safe and well.

We also ran a series of Check-In Surveys throughout the year every few weeks to ensure staff were able to provide feedback on our response to the pandemic, making sure they had the information they needed and support of management. These had strong participation rates and the feedback from staff was very positive in terms of support and help available. We chose not to run a full survey in the year because of the crisis and will instead run that in the autumn of 2021.

In addition, we have run a series of All Staff meetings, held virtually, throughout the year to keep staff up to date on business issues, our grant programmes and our external and internal responses to the crisis. These have been well attended; to accompany these meetings we also ran open questionnaires to allow staff to ask questions or raise issues ahead of and in the staff meetings. These have proved to be successful.

We also delivered a series of events, workshops, videos and other virtual interactions with staff to endorse and promote our new values and behaviours. We informally launched our new Behavioural Framework in the year and have built that into our new framework for recruitment that launched at the end of the year and our new performance management framework that launches in the early summer of 2021.

During the year we also created a very successful network of Culture Champions across the Fund to help promote our culture, focussing on our new values and the behaviours associated with them. That also has been very successful.

Equality and diversity and employment monitoring

Equality, Diversity and Inclusion (EDI) are a central part of our work in grant-giving as well as core to our governance and workforce. They are also core to our values and to our behaviours.

In May 2020 we launched a large-scale review of our approach to EDI issues in response to the Black Lives Matters campaign and to provide an opportune moment to refresh our approaches in these areas. This review was chaired by Maria Adebawale-Schwarte, one of our Trustees, and we set up a task force to oversee this work from across the sector and the UK. The work was managed by Andrew White, our Business Delivery Director for Wales, who has significant experience in EDI issues. A working group from across the Fund was also set up to support the workstreams. We also commissioned research, data and insight into EDI issues from our place as a grant-giver to help inform our work. The report was completed in March 2021 and endorsed by the Board, its recommendations in terms of grant-giving, governance and workforce will start to be implemented in 2021.

During the year we continued to deliver and implement the Workforce Diversity Action Plan we drew up in 2019–20 and also our new Disability Action Plan. We also created a new role in the HR team dedicated to EDI issues in the workplace and workforce.

Despite the crisis, we accelerated actions from the plans in the year including introducing mandatory e-learning on EDI, mandatory group training on EDI including recruitment, building EDI into our new

Behavioural Framework and created a calendar of EDI events throughout the year. We have created new guidelines for staff on EDI issues such as transgender, supporting people of faith and race. We also completed and promoted a new Workforce Equality Statement to affirm our commitments in this area.

As part of its commitment to EDI, the Fund welcomes and promotes applications for roles from persons with a disability. We remain a Disability Confident employer and promote this in our recruitment portals and literature. We relaunched our recruitment frameworks, policies and procedures at the end of 2020–21 and these reflected our wider EDI commitment including a commitment to disabled applicants and colleagues. We make reasonable adjustments for all applicants at interview and in the selection process.

For candidates who are successful and join us and also existing employees, we make reasonable adjustments for working in the Fund including the roles, working environment, specialist adjustments etc. The Fund is compliant with its obligations under the Equality Act 2010. Furthermore, the Fund also uses a specialist occupational health referral system and specialist contractor to provide detailed advice, guidance and support for all staff. In addition, the Fund also provides an Employee Assistance Programme available to all staff 365 days a year, 24 hours a day. The Fund has been very aware of the challenges to staff mental health and wellbeing throughout the COVID-19 crisis and the risks of so-called “hidden disabilities”. The Fund is supportive of all colleagues who may be at risk in these situations and provides leadership, direction and line management support as well as direct support for staff impacted in these areas.

During the year we continued our partnership with Leonard Cheshire in their Change 100 programme. Change 100 is their flagship programme of paid summer work placements, professional development and mentoring. It aims to remove barriers experienced by disabled people in the workplace, to allow them to achieve their potential.

We also created a new strategic partnership with the Windsor Fellowship and created new posts for graduates to work with us for a year and develop career opportunities in heritage. Our first cohort of fellows started in the year and we will run a second campaign later in 2021.

We also developed a partnership with 2027 in Scotland. This is a year-long programme with fully salaried roles and professional development to help people from a working-class background begin a career on grant-giving organisations. We expect to recruit to this programme in early summer 2021.

Workforce Diversity Analysis

The information contained in the charts below shows the picture of our 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 continue to recognise that in some areas our workforce is not as diverse in comparison with national levels and we acknowledge there are under-represented staff groups. We also continue to recognise wider heritage sector trends and barriers to entry, unconscious or conscious, that all have impacts on the shape of our workforce. We have as a result continued to improve our HR management information system to assist in this work and allow staff direct access to their personal data to encourage full disclosure of information.

At the end of the year we launched an entirely new recruitment process and system based on our values and behaviours. Accompanying the policy to support this, were new guidelines on embedding EDI into recruitment especially recruitment channels. This new approach also removes academic qualifications as a requirement in the recruitment process (with exceptions for some specific roles).

We will continue to focus on working towards our 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 continue to hold the Disability Confident award for recruitment.

Health & Safety at Work

The COVID-19 crisis fundamentally changed our approach to health and safety throughout the whole of 2020–21. Our primary objective was, and remains, keeping all our staff safe and sound. Fortunately, we have had relatively modest levels of infection throughout the Fund. From the outset we provided updates and frequently asked questions to staff in line with the public health guidance that applied across the UK and this was regularly refreshed throughout the year. We provided additional support materials to

line managers to help look after their teams and launched over 30 mental health and wellbeing initiatives for staff during the year.

Throughout 2020–21 the Fund's offices were closed as a result of the pandemic and staff worked remotely from their homes. As a result the normal health and safety policies in relation to offices were in effect suspended. All staff were asked to complete Desk Screen Equipment (DSE) assessments and also home working assessments – over 260 online training sessions in our e-learning service were accessed in the year. The Fund also provided over 200 chairs for staff working at home, nearly 100 monitors and over 340 computer peripherals to facilitate homeworking. The Fund also ensured new staff were properly inducted in these areas.

The Fund also provided access to flu jabs to all staff as part of our commitment to wellbeing and wider health.

Site visits took place virtually and were only allowed in person, and then outdoors only, when the relevant public health guidelines permitted across the UK.

As we prepare to re-open offices, a detailed risk assessment for each office is being undertaken. The application of guidance from the Health and Safety Executive (and equivalents) will be followed and the Fund has engaged external contractors with experience in these areas to help us plan and re-open offices safely.

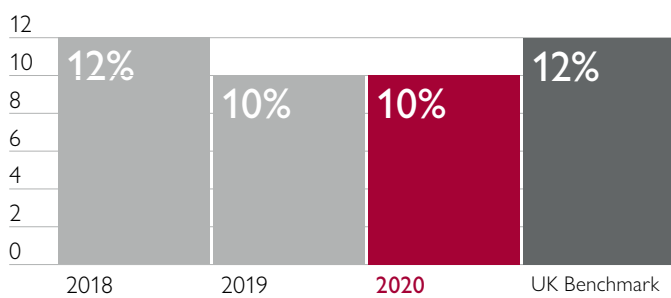
Human capital management

The Fund has an agreed policy with its trade unions. Reward and recognition for pay matters operates within that framework. The pay award for 2020 was also compliant with the applicable Civil Service pay remit for that year and was approved by our sponsor department, DCMS. The Fund developed a new performance management framework for all staff in the year and this is being rolled out for delivery in the first quarter of 2021–22.

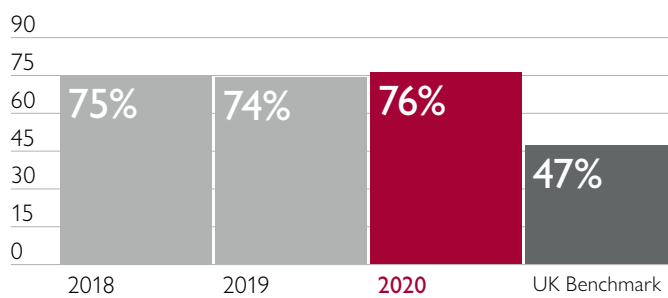
In addition, the Fund also developed a new Workforce Development Strategy for all staff, line managers and leaders in the year and this began delivery in 2020–21; including over 200 training sessions offered over 131 working days with in excess of 2,200 attendees at those events. We ran five corporate induction events with a 100% assessment rating from attendees at those events of being “very useful” or “useful”. Nearly 300 “learning bite” training modules were also taken up by staff.

Finally, the Fund developed plans for talent management and succession planning and these are being rolled out in 2021–22.

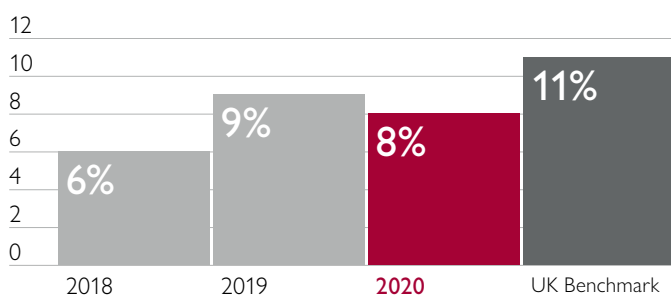
**Ethnic diversity:
BAME in the workforce**



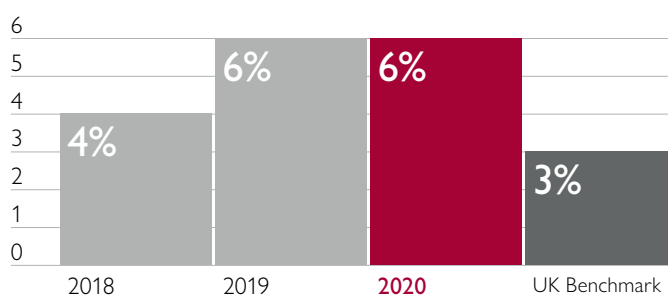
**Gender diversity:
Women in the workforce**



**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.

Value

Workforce Diversity Focus

Inclusive: 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.

Ambitious: 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.

Collaborative: 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.

Trusted: 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.

Report of the Trustees and Accounting Officer

Staff turnover

In 2020–21 we had 26 staff leave the Fund; this represents 9% of our staffing complement (289 full time equivalents). This rate of churn is lower than the longer term average of around 15% and is reflective of the situation of the crisis and opportunities within the job market as well as the security of tenure of roles within the Fund in that context. The equivalent departures in 2019–20 was 65 (22%) which was heavily influenced by the remaining elements of our organisational design work that year and a number of short term appointments coming to an end. The Fund recognises the balance between healthy staff retention rates and bringing new talent and people into the Fund.

Expenditure on consultancy

NHMF spent £1,010 on consultants in 2020–21 (2019–20: £2,751). NHMF has used the definitions of consultancy contained within annex 6.1 of the Cabinet Office controls guidance: version 4.0.

Whistleblowing

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

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

Tax arrangements of public sector employees

HM Treasury requires all central government bodies to report on the tax status of senior management and long-term contractors. In particular HM Treasury requires all senior managers to be on the payroll and to pay tax under the PAYE scheme. 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 the 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 CBE

Chief Executive and Accounting Officer

2 July 2021

Parliamentary accountability and audit report

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

Opinion on financial statements

I certify that I have audited the financial statements of the National Heritage Memorial Fund for the year ended 31 March 2021 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. The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards as interpreted by HM Treasury's Government Financial Reporting Manual.

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 2021 and of its total comprehensive expenditure for the year then ended; and
- 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 for opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK), applicable law 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 2019. I have also elected to apply the ethical standards relevant to listed entities. I am independent of the National Heritage Memorial Fund in accordance with the ethical requirements that are relevant to my audit of 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

The National Heritage Memorial Fund's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the National Heritage Memorial Fund's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

My responsibilities and the responsibilities of the Accounting Officer with respect to going concern are described in the relevant sections of this certificate.

The going concern basis of accounting for the National Heritage Memorial Fund is adopted in consideration of the requirements set out in HM Treasury's Government Reporting Manual, which require entities to adopt the going concern basis of accounting in the preparation of the financial statements where it anticipated that the services which they provide will continue into the future.

Other Information

The other information comprises information included in the annual report, but does not include the parts of the Accountability Report described in that report as having been audited, the financial statements and my auditor's certificate thereon. The Accounting Officer is responsible for the other information. My opinion on the financial statements does not cover the other information and except to the extent otherwise explicitly stated in my certificate, 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 I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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.

Report of the Trustees and Accounting Officer

Opinion on other matters

In my opinion, based on the work undertaken in the course of the audit:

- 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
- the information given in the Performance 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

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 material misstatements in the performance and Accountability report. 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
- certain disclosures of remuneration specified by HM Treasury's Government Financial Reporting Manual are not made; 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.

Responsibilities of the Accounting Officer for the financial statements

As explained more fully in the Statement of Trustees' and Accounting Officer's Responsibilities, the Chief Executive as the Accounting Officer, is responsible for:

- the preparation of the financial statements in accordance with the applicable financial reporting framework and for being satisfied that they give a true and fair view;
- internal controls as the Chief Executive as the Accounting Officer determines is necessary to enable the preparation of financial statement to be free from material misstatement, whether due to fraud or error.
- assessing the National Heritage Memorial Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern

and using the going concern basis of accounting unless the Chief Executive as the Accounting Officer anticipates that the services provided by the National Heritage Memorial Fund will not continue to be provided in the future.

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.

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a certificate that includes my opinion. 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.

I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulation, including fraud.

My procedures included the following:

- Inquiring of management, the National Heritage Memorial Fund's head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to the National Heritage Memorial Fund's policies and procedures relating to:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
 - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations including the National Heritage Memorial Fund's controls relating to Managing Public Money and the National Heritage Act 1980.
- discussing among the engagement team regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, I identified potential for fraud in the following areas: posting of unusual journals, the provision for lapsed commitments and grant expenditure;

- obtaining an understanding of the National Heritage Memorial Fund's framework of authority as well as other legal and regulatory frameworks that the National Heritage Memorial Fund operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the National Heritage Memorial Fund. The key laws and regulations I considered in this context included Managing Public Money, the National Heritage Act 1980, employment law and tax legislation;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud.

In addition to the above, my procedures to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- reading minutes of meetings of those charged with governance and the Board;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business; and
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud.

I also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

A further description of my responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of my certificate.

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.

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.

Report

I have no observations to make on these financial statements.

Gareth Davies

Comptroller and Auditor General

7 July 2021

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

Report of the Trustees and Accounting Officer

The financial statements

Statement of comprehensive net expenditure

for the year ended 31 March 2021

	Notes	£'000	2020–21 £'000	2019–20 £'000
Sundry operating income	3		0	0
New awards made in the year	15	(187,561)		(10,457)
De-committed awards	15	994		238
			(186,567)	(10,219)
Staff costs	23	(4,920)		(139)
Depreciation	9, 10 and 11	(11)		(9)
Other operating charges	4	(2,156)		(149)
			(7,087)	(297)
Operating expenditure			(193,654)	(10,516)
Operating deficit			(193,654)	(10,516)
Interest receivable	6	11		35
Distributions received	7	204		828
Non-operating income			215	1,733
Comprehensive net expenditure transferred to the accumulated fund			(193,439)	(9,653)
Other comprehensive income				
Net gain/(loss) on revaluation of Charity Multi-Asset Fund prior to sale	18		5,359	(3,821)
Net gain on revaluation of Responsible Multi-Asset Fund	18		3,598	0
Total comprehensive expenditure for the year ended 31 March 2021			(184,482)	(14,344)

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 50 to 61 form part of these accounts.

Statement of changes in taxpayers' equity

for the year ended 31 March 2021

	Fair value reserve £'000	Income and expenditure account £'000
Balance at 31 March 2019	17,517	28,766
Changes in taxpayers' equity in 2019–20		
Net loss on revaluation of financial assets	(3,821)	0
Realisation of fair value reserve on sale of investments	(870)	870
Comprehensive net expenditure transferred to the accumulated fund	0	(9,653)
Grant-in-aid from DCMS	0	6,270
Balance at 31 March 2020	12,826	26,253
Changes in taxpayers' equity in 2020–21		
Net gain on revaluation of investments prior to sale	5,359	0
Realisation of fair value reserve on sale of investments	(18,185)	18,185
Net gain on revaluation of financial assets	3,598	0
Comprehensive net expenditure transferred to the accumulated fund	0	(193,439)
Grant-in-aid from DCMS	0	183,287
Balance at 31 March 2021	3,598	34,286

The fair value reserve relates to the difference between book cost and market value of the investments in the endowment fund (see note 12). The difference between book and market value of intangible fixed assets and property, plant and equipment (see notes 9 and 10) is not material. Under International Financial Reporting Standard 9, Financial Instruments, the transactions relating to the sale of investments are disclosed within the Statement of Changes in Taxpayers' Equity whereas it had previously been disclosed in the Statement of Comprehensive Net Expenditure. We have also moved the comparative figure for 2019–20 to this Statement.

Report of the Trustees and Accounting Officer


Statement of financial position

as at 31 March 2021

	Notes	31 March 2021 £'000	31 March 2020 £'000
Non-current assets			
Intangible fixed assets	9	11	2
Property, plant and equipment	10	9	15
Right of use	11	7	11
Long-term financial assets available for sale	12	64,212	39,262
		64,239	39,290
Current assets			
Trade and other receivables	13	5	210
Cash and cash equivalents	8	82,582	4,020
Cash held in the endowment funds	12	4,093	0
		86,680	4,230
Total assets		150,919	43,520
Current liabilities			
Payables	14	(10,120)	(224)
Grant liabilities due within one year	15	(102,912)	(4,210)
		37,887	39,086
Non-current liabilities			
Payables due in more than one year	14	(3)	(7)
Grant liabilities due after one year	15	0	0
Assets less liabilities		37,884	39,079
Taxpayers' equity			
Fair value reserve	18	3,598	12,826
Income and expenditure account		34,286	26,253
		37,884	39,079

This statement excludes balances relating to the National Lottery distribution activities of NHMF, which are reported in a separate set of accounts.

The notes on pages 50 to 61 form part of these accounts.



Dr Simon Thurley CBE
Chair



Ros Kerslake CBE
Chief Executive and Accounting Officer

2 July 2021

Statement of cash flows

for the year ended 31 March 2021

	Notes	2020-21 £'000	2019-20 £'000
Operating activities			
Cash from sundry operating income	3	0	0
Cash paid to and on behalf of employees		(88)	(85)
Interest received	6	11	35
Cash received from donations		0	0
Cash paid to suppliers		(214)	(55)
Cash paid to grant recipients	15	(84,542)	(7,080)
Net cash outflow from operating activities	16a	(84,833)	(7,185)
Investing activities			
Capital expenditure and financial investment	16b	(10)	(19)
Endowment fund net cash receipts	16b	15,789	2,859
Net cash (outflow)/inflow from returns on investments		(15,799)	2,840
Cash flow before financing		(100,632)	(4,345)
Financing activities			
Grant-in-aid received	16c	183,287	6,270
Increase in cash and cash equivalents		82,655	1,925

The notes on pages 50 to 61 form part of these accounts.

Reconciliation of net cash flow to movement in net funds

for the year ended 31 March 2021

	2020-21 £'000	2019-20 £'000
Increase in operating cash in the period	82,655	1,925
Cash used to increase liquid resources	0	0
Changes in cash and cash equivalents	82,655	1,925
Cash and cash equivalents at 1 April	4,020	2,095
Cash and cash equivalents at 31 March	86,675	4,020

The notes on pages 50 to 61 form part of these accounts.

Notes to the accounts

for the year ended 31 March 2021

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.

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

In those circumstances where the remaining life of a property lease is less than four years, any refurbishment or non-movable equipment will be depreciated over the remaining life of the lease. 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 changes in taxpayers' equity 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.

i) Grant decisions and liabilities

Recognition

Positive decisions by trustees are recognised in the statement of comprehensive net expenditure at the time of award. Consequently, grant liabilities are recognised at the time of the decision at the value recorded in the minutes of the decision-making meeting.

Post-decision adjustments to award value

Circumstances may change on the project subsequent to the decision being made – for example, project costs may alter, ineligible costs identified, partnership funding is more or less than envisaged at the time of the decision. In these circumstances, no adjustment is made to the value of awards unless the reason for the adjustment is systematic to the grant programme rather than being isolated, one-off, adjustments. If there are circumstances specific to an award programme, then the grant award value and the grant liability will be reduced to reflect known post award adjustments. Furthermore, a provision will be created to reflect possible further adjustments to other decisions within the same programme. Any provision created and the subsequent movement on that provision will form part of the disclosure of de-commitments in the year.

Adjustments once the project is underway

De-commitments of grant liabilities, once a project is underway, occur when an award or part award is not fully 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 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. The apportionment is based upon a number of metrics that attempt to reflect the degree of work carried out on our grant-in-aid and Lottery distribution activities – the number of application, the number of awards, the number of projects under monitoring etc. There is inevitably a degree of estimation in this work and so we keep the percentage split under annual review. At the end of the financial year the proportion of joint costs apportioned to our National Lottery distribution activities was 99% (2019–20: 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.

m) Cash and cash equivalents

Cash and cash equivalents comprise bank balances including cash on hand and cash held with our investment managers, Cazenove, which are available on demand.

Notes to the accounts

for the year ended 31 March 2021

n) Estimation uncertainty

The preparation of these accounts requires that senior management make estimates and assumptions that can affect the measurement of reported income, expenses, assets, liabilities and the disclosure of contingent liabilities. It can also affect the allocation of costs between our grant-in-aid and our Lottery distribution activities.

If these estimates and assumptions, which are based on senior management's best estimates at the date of the financial statements, deviate from actual circumstances in the future, the original estimates and assumptions will be updated in the period in which the circumstances change.

Our estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The COVID-19 pandemic has had a major impact on our activity and this is expected to continue into 2021–22. As a result, senior management has assessed the values of assets at 31 March 2021 to identify any indicators of impairment. Where a potential impairment may have arisen as a result of COVID-19, an estimate of the expected recoverable value of the asset has been made and compared to the current carrying value of the asset, to estimate any impairment to be recorded. Where material, these significant estimates have been disclosed below.

The sums received were:

Body	Programme name	Grant-in-aid received in 2020–21 £'000
Department for Digital, Culture, Media and Sport	Culture Recovery Fund 1	94,387
Department for Digital, Culture, Media and Sport	Capital Kick Start	15,748
Department for Digital, Culture, Media and Sport	Standard grant-in-aid	5,002
Department for Digital, Culture, Media and Sport	Phoenix Fund	16,000
Department for Environment, Food and Rural Affairs	Green Recovery Challenge Fund 1	40,000
The Welsh Government	Local Places for Nature, Community Woodlands, Green Recovery Capacity Building Scheme, 15-minute Heritage	5,400
The Northern Ireland Executive	Shared History Fund, Heritage Recovery Fund, Community Heritage Fund	6,750

Impairment of property, plant and equipment and right-of-use assets

Property, plant and equipment and right-of-use assets are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. Our current plans are to return to offices as soon as the government's guidelines allow. Consequently, we have made no adjustment to the value of our property-based fixed assets.

Allocation of costs between our two main activities

The speed at which we had to deliver both our own emergency programmes and those on behalf of government departments meant that the normal method we use to allocate costs between our two activities – distributing grant-in-aid and distributing funds derived from the National Lottery – had to be amended. We created a time recording system for staff to indicate which programmes they were working on and based recharges of costs on that data. Staff were required to estimate how much time they spent on each programme during the past month. Furthermore, the complexities and novelty of this system meant that some estimates were used by the compilers to improve the quality and perceived accuracy of the data. For subsequent years, we have improved the format of the database to increase acceptance and usage

2. Grant-in-aid

	2020–21 £'000	2019–20 £'000
Grant from DCMS	183,287	6,270

The rise in grant-in-aid is entirely due to the pandemic. We were asked by a number of central government bodies to distribute emergency and other funding on their behalf and this resulted in large amounts of grant-in-aid being provided to us. All the sums were channelled through DCMS.

3. Sundry operating income

This comprises:		
	2020-21 £'000	2019-20 £'000
Repayments of grant	0	0
Donations and bequests	0	0
	0	0

4. Operating deficit

The operating deficit is stated after charging the following:		
	2020-21 £'000	2019-20 £'000
Auditor's remuneration	35	11
Payments under operating leases		
– leasehold premises	3	8
– hire of plant and machinery	0	0

There were no non-audit fees paid to the external auditors. Additional costs of £5,496,000 have been allocated to NHMF's National Lottery distribution accounts. As disclosed in note 1, 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%.

During 2020–21, NHMF distributed large sums of money from various central government organisations as a response to the COVID-19 pandemic. In order to undertake this massive task, many staff that normally dealt exclusively with distributing National Lottery funds were co-opted to work at great speed to deliver these programmes. Rather than re-calculate the 99%:1% split for what will only be one or two years of frenzied activity, we simply identified the proportion of work undertaken by these staff on non-Lottery activities; calculated their value with reference to our pay scales and re-charged the various grant-in-aid supported programmes. We also calculated an associated overhead allocation as part of this recharge. The total value of these recharges in 2020–21 was £6.8m. Included in this recharge was a significant amount of depreciation on assets owned by our Lottery-distributing activities – because our fixed assets helped deliver the emergency programmes. This recharge is not reflected in the notes to the accounts relating to fixed assets because it would entirely distort the narrative in these accounts (i.e. the depreciation charge would be much higher than the value of fixed assets). Consequently, the adjustment was put to other cost codes.

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

	2020-21 £'000	2019-20 £'000
Accommodation	342	9
Postage and telephone	206	5
Travel, subsistence and hospitality	0	2
Professional fees		
– grant-related	62	8
– non-grant-related	1,284	57
Communications	95	16
Sundry expenses	0	3
Office equipment	167	49
	2,156	149

5. Profit on the sale of investments

	2020-21 £'000	2019-20 £'000
Long-term financial assets available for sale	18,185	870

Profits (or losses) are earned on the disposal of investments held in the endowment fund when NHMF requires funds to pay grants. In 2020–21, Trustees switched their investment vehicle from the Cazenove Charity Multi-Asset Fund to the Cazenove Responsible Multi-Asset Fund. The wholesale disposal of units in the former led to a large profit on sale being generated as, in effect, the entire fair value reserve was crystallised. For further information on the switch of investment see note 12.

6. Interest received

	2020-21 £'000	2019-20 £'000
Bank interest received		
– Lloyds Bank	9	35
– Endowment	2	0
	11	35

During the year, we opened a cash account with our investment managers, Cazenove, because they could access better interest rates. Unfortunately, the pandemic took a toll on interest rates and interest returns were poor in the year.

Notes to the accounts

for the year ended 31 March 2021

7. Distributions received

	2020-21 £'000	2019-20 £'000
Income from endowment fund	204	828

As mentioned in note 5, we switched our entire investment portfolio. As we anticipated utilising a large part of the endowment fund during the year as a result of the pandemic, we switched from distribution units in the Charity Multi-Asset Fund to accumulation units in the Responsible Multi-Asset Fund. The result of this was the end of quarterly dividends part way through the year.

8. Cash and cash equivalents

	2020-21 £'000	2019-20 £'000
Instant access		
– Lloyds Bank	82,582	4,020
– Cash held in liquidity funds	4,093	0
	86,675	4,020

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. Cazenove place the money on deposit with other financial institutions. We continue to review interest rates available in the market for short-term deposits, but at present market rates are negligible.

The closing balance at 31 March 2021 is much higher than normal. This is because of all the grant-in-aid that we have drawn down to fund emergency programmes. We had expected grant payments associated with these programmes to have been claimed earlier by grantees, hence the high balance.

9. Intangible fixed assets

	Website		Information Technology		Total	
	2020-21 £'000	2019-20 £'000	2020-21 £'000	2019-20 £'000	2020-21 £'000	2019-20 £'000
Cost at start of year	0	0	2	1	2	1
Additions	0	0	10	1	10	1
At end of year	0	0	12	2	12	2
Amortisation at start of year	0	0	0	0	0	0
Charge for the year	0	0	1	0	1	0
At end of year	0	0	1	0	1	0
Net book value at start of year	0	0	2	0	1	0
At end of year	0	0	11	2	11	2

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 2021, 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	
	2020-21 £'000	2019-20 £'000	2020-21 £'000	2019-20 £'000	2020-21 £'000	2019-20 £'000	2020-21 £'000	2019-20 £'000
Cost at start of year	7	3	8	20	1	1	16	24
Additions	0	7	0	10	0	1	0	18
Disposals	0	(3)	0	(22)	0	(1)	0	(26)
At end of year	7	7	8	8	1	1	16	16
Depreciation at start of year	1	3	0	18	0	1	1	22
Charge for the year	2	1	3	4	1	0	6	5
Adjustment on disposal	0	(3)	0	(22)	0	(1)	0	(26)
At end of year	3	1	3	0	1	0	7	1
Net book value at start of year	6	0	8	2	1	0	15	2
At end of year	4	6	5	8	0	1	9	15

Trustees have considered the current cost values of property, plant and equipment. A review of the current cost values at 31 March 2021 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.

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

11. Right of use asset (IFRS 16)

International Financial Reporting Standard 16 (Leases) was adopted from April 2019. This standard replaced International Accounting Standard 17 and set out the principles for the recognition, measurement, presentation and disclosure of leases. IFRS 16 was adopted using the modified retrospective approach, which does not require restatement of comparative information. IFRS 16 has introduced 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 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.

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.

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:

	2020-21 £'000	2019-20 £'000
Balance at start of the year	11	0
Creation of right to use asset	0	15
Amortisation	(4)	(4)
Balance at close of year	7	11

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 63 summarises

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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 help fund NHMF's grant giving. On occasions, trustees have drawn down funds that take the value of the endowment fund below its target value. Trustees do this reluctantly and only when faced with the possibility of losing a significant part of the UK's heritage. In these circumstances, trustees monitor the shortfall and use future grant-in-aid to replenish the endowment fund if capital growth does not exceed the increase in the Consumer Prices Index.

At 31 March 2021, the original £10million investment would be worth £60.8million taking into account indexation. The actual market value was £68million including cash held within the endowment.

The endowment fund comprises the following:

	Market value 2020–21 £'000	Book cost 2020–21 £'000
Long-term financial assets	64,212	60,614
Cash	4,093	4,093
	68,305	64,707

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 Responsible Multi-Asset Fund run by Cazenove Capital, a trading name of Schroders, which invests in a range of 22 unit and investment trusts across many asset types and geographic markets. Units in the Responsible 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.

Movements on the long-term financial assets during the year are:

	2020–21 £'000	2019–20 £'000
Cost and net book value		
At start of year	26,436	27,615
Additions	60,620	0
Disposals	26,442	(1,179)
At end of year	60,614	26,436
Net book value		
Listed on the London Stock Exchange	0	0
Unlisted investments	60,614	26,436
	60,614	26,436
Cost	60,614	26,436
Market value	64,212	39,262
Unrealised gain	3,598	12,826

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

An analysis of investments at the year end was:

	2020–21 %	2019–20 %
Bonds	9	6
UK equity	0	17
Europe equity (excluding UK)	0	3
North America equity	0	15
Japan and other Asian equity	0	6
Emerging market equity	0	7
Thematic equity	16	0
Global equity funds	55	17
Property	3	9
Absolute return/hedge	0	6
Diversifiers	12	8
Infrastructure	0	0
Cash	5	6
Commodities	0	0
	100	100

Following the shift from the Charity Multi-Asset Fund to the Responsible Multi-Asset Fund, the analysis of investments has changed. Further information about the underlying investments of the endowment fund is elsewhere in this report.

13. Trade and other receivables

	2020–21 £'000	2019–20 £'000
Repayment of grant	0	0
Prepayments and accrued income	5	210
	5	210

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

14. Payables

	2020-21 £'000	2019-20 £'000
Operating payables	2	9
Other payables including taxation and social security	10,037	158
Accruals and deferred income	84	64
	10,123	231

None of the liabilities of NHMF was secured. Of the above amounts for operating and other payables, £10,037,000 was payable to central government bodies (2019-20: £158,000).

Accrual and deferred income includes £7,000 reflecting the right to use asset under IFRS 16 (see note 11 for further details) of which £3,000 is due in more than one year.

15. Grant liabilities

	2020-21 £'000	2019-20 £'000
At start of year	4,210	1,071
Grants paid in the year	(87,865)	(7,080)
Commitments created in the year	187,561	10,457
De-committed awards	(994)	(238)
At end of year	102,912	4,210

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

	2020-21 £'000	2019-20 £'000
In one year	102,912	4,210
In two to five years	0	0
	102,912	4,210

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

	2020-21 £'000	2019-20 £'000
Balances owing to		
– central government	1,036	115
– local authorities	6,099	1,008
– public corporations	55	75
– other bodies	95,722	3,012
	102,912	4,210

While the grants paid in the year for grant-in-aid programmes are £87,865,000, this figure includes grant payments of £3,323,000 made using our National Lottery derived funds. These are reflected in the accounts as a debt owed by our grant-in-aid activities to our Lottery distribution activities. This figure has been adjusted in the cash flow statement (cash paid to grant recipients).

16. Notes to the statement of cash flows

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

	2020-21 £'000	2019-20 £'000
Operating deficit	(193,654)	(10,516)
Interest receivable	11	35
Add back non-cash items		
– depreciation	11	9
Increase in grant commitment reserve	98,702	3,139
Decrease in receivables (excluding capital and investments)	205	(0)
Increase in non-capital payables	9,892	148
Net cash outflow from operating activities	(84,833)	(7,185)

b) Capital expenditure and financial investment:

	2020-21 £'000	2019-20 £'000
Payments to acquire		
– property, plant and equipment	(0)	(18)
– intangible fixed assets	(10)	(1)
– long-term financial assets available for sale	(60,620)	0
Receipts from sales of		
– property, plant and equipment	0	0
– long-term financial assets available for sale	44,627	2,050
Income from long-term financial assets available for sale	204	809
	(15,799)	2,840

c) Analysis of changes in net funds:

	At 1 April 2020 £'000	Operating cash flows £'000	Grant-in-aid £'000	At 31 March 2021 £'000
Cash at bank	4,020	(100,632)	183,287	86,675

17. Related-party transactions

NHMF is a non-departmental public body sponsored by DCMS. DCMS is regarded as a related party.

During the year, NHMF (including its National Lottery distribution activities) has had various material transactions, other than grant awards, with DCMS itself and with five entities for which DCMS is regarded as the sponsor department – the National Lottery Community Fund, Sport England, UK Sport, Historic England and the Arts Council of England. Further details of these transactions and balances can be found in the accounts of the National Lottery distribution activities of NHMF. There have also been transactions with other arms of government; the Cabinet Office and Historic Environment Scotland. Again, the accounts of our Lottery distribution contains further details.

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As referenced elsewhere in these accounts, NHMF has distributed funds on behalf of various government organisations; the Department for Digital, Culture, Media and Sport, the Department for Environment, Food and Rural Affairs, the Welsh Government and the Northern Ireland Executive. Note 2 contains details of the sums received.

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 seven NHMF grants awarded in 2020–21 where a trustee had an interest:

Lincoln Cathedral

A grant increase of £973,600 – Lincoln Cathedral Connected (Heritage Capital Kickstart Fund).

A grant of £970,600 – CRF20: The Corporate Body of Lincoln Cathedral.

David Stocker declared a conflict of interest for both, as a Cathedrals' Fabric Commission of the Church of England appointee to the Fabric Advisory Committee of Lincoln Cathedral.

University of Leeds

A grant of £17,162 – #Digital5 The Question of Digital: Building the digital capabilities of the heritage sector.

David Stocker reported a conflict as an Honorary Visiting Professor of Medieval Studies at the University of Leeds.

The National Trust for Places of Historic Interest or Natural Beauty

A grant of £99,800 – #Digital7 Queer Heritage and Collections Network.

A grant of £3,847,900 – GRFCF2020 – Delivering nature-rich historic landscapes, resilient to climate change.

David Stocker reported a conflict for both, as a member of the National Trust Council.

Heritage Trust of Lincolnshire

Grants of £278,200 and £147,400 – CRF20 and CRF21: Heritage Trust of Lincolnshire.

David Stocker reported that between 1990 and 2018 he had chaired the Heritage Trust of Lincolnshire's Advisory and Liaison Committee.

There were six NHMF grants awarded in 2020–21 where a member of one of our country or area committees had an interest:

Tavistock Town Council

A grant increase of £130,900 to make a total grant of £948,700 – Tavistock Guildhall Gateway Centre (Heritage Capital Kickstart Fund).

Tamsin Daniel declared an interest because her employer, Cornwall Council, funded the core costs of the team.

Black Country Living Museum

A grant increase of £3,740,000 – Forging ahead – Creating a world class visitor attraction in the Black Country.

Marion Blockley declared a conflict of interest as she worked as a consultant on the project team for their original bid.

Northamptonshire County Council

A grant increase of £719,700 to make a total grant of £4,686,900 – Chester Farm.

Jim Harker declared a conflict of interest as he was the Leader of the Council during the development and delivery phases of this project.

Beyond Housing

A grant of £124,100 – GRFCF2020 – Loftus Community Woodland.

John Williams declared a conflict of interest as a board member of Beyond Housing.

Durham Wildlife Trust

A grant of £407,300 – GRFCF2020 – Healing Nature.

Jim Cokill declared a conflict of interest as he is Director of Durham Wildlife Trust.

Carlisle Cathedral

A grant increase of £250,000 – Bringing Untold Stories to life for Everyone (Heritage Capital Kickstart Fund).

Humphrey Welfare declared an interest as member of the Fabric Advisory Committee for Carlisle Cathedral.

There were two NHMF grants awarded in 2020–21 where a member of staff had an interest:

Wikimedia UK

A grant of £119,100 – #Digital7 Developing open knowledge skills, tools and communities of practice for sustainable digital preservation.

Josie Fraser (Head of Digital) reported a conflict as she was previously chair of the organisation.

Derbyshire Wildlife Trust

A grant of £538,200 – GRFC2020 Wilder Derbyshire – a nature led recovery for people and wildlife (OL-20-01829)

David Renwick (Area Director, North) declared a conflict of interest as a trustee of Derbyshire Wildlife Trust.

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 2020–21 there will also have been related-party transactions, in the form of grant payments, relating to awards made and disclosed in previous years. As those related-party transactions have been previously disclosed, they are not repeated here.

18. Fair value reserve

	2020–21 £'000	2019–20 £'000
At start of year	12,826	17,517
Net gain/(loss) prior to sale of Charity Multi-Asset Fund units	5,359	(3,821)
Realisation on sale of Charity Multi-Asset Fund units	(18,185)	(870)
Net movement on Responsible Multi-Asset Fund units	3,598	0
At end of year	3,598	12,826

The reserve relates to the difference between book cost and market value of long-term financial assets available for sale (see note 12). The difference between book and market value of intangible fixed assets and property, plant and equipment (see notes 9 and 10) is not material.

19. Financial instruments

IFRS 7, *Financial Instruments: Disclosures*, requires disclosure of the role that financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Financial instruments play a much more limited role in creating or changing risk for NHMF than is typical of the listed companies to which IFRS 7 mainly applies. NHMF does not have powers to borrow but can

invest grant-in-aid derived funds. With the exception of the endowment fund, financial assets and liabilities are generated by day-to-day operational activities rather than being held to change the risks facing the organisation.

Liquidity risk

NHMF received £183.29million as grant-in-aid during 2020–21 and is due to receive at least another £34million in 2021–22 relating to our 2020–21 activities. Furthermore, trustees maintain an endowment fund and its underlying investment in Cazenove's Responsible 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 £86.67million at the date of the statement of financial position) and the endowment fund (worth £64.2million at the date of the statement of financial position), to cover all outstanding grant awards of £99.5million and administrative liabilities of £10.1million. 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. The interest rate earned on our bank balances fell to zero just before the start of the year. Our accounts with Lloyds, earn 0.1% below base rate, but as the Bank of England base rate fell to 0.1%, we earn nothing. In order to counter this, we invested into some liquidity funds, via our investment managers, operated by JP Morgan and Blackrock. However, this bonanza did not last long and rates there are also zero. As interest rates earned are currently zero there is no interest rate risk. We have been verbally assured by our bankers that they will not charge us a fee should market interest rates turn negative. These accounts were used to make grant payments and fund our administration.

The year-end cash balances were £86.67million and were held as disclosed in the table in note 8. 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 £64.2million. Returns are dependent upon global

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stock and commodity markets and performance of investments included within the portfolio. In the year, the return on the endowment was a positive increase of 27.3%.

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 our standard grant-in-aid over the next few years, as the Government's Spending Review has yet to be completed, trustees hope that there will be no reduction in the level of sums received in recent years for our standard activity – we have been told that we will receive our standard grant-in-aid of £5million for 2021–22, but numbers have yet to be finalised for funding the various emergency programmes that we deliver. 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.

	2020–21 £'000	2019–20 £'000
Cash balances		
– sterling at floating interest rates	86,675	4,020
– sterling at a mixture of fixed and floating rates	0	0
– sterling at fixed rates	0	0
	86,675	4,020

Credit risk

NHMF's receivables (£5,000) mostly comprise trade debtors and operating prepayments. It is not, therefore, exposed to significant credit risk.

Foreign currency risks

The endowment fund is invested in Cazenove's Responsible 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 66%. 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.

Investment risk

The long-term financial assets available for sale are invested in a fund controlled by our investment managers, Cazenove. Underlying investments are normally investment trusts that ultimately are underpinned by share investments. The value of shares can go up and down for a wide variety of reasons. By investing with Cazenove we are buying into their expertise in making investments. By investing in the Charity Multi-Asset Fund and then the Responsible Multi-Asset Fund, we see a track record of returns above inflation whilst reducing the impact of market volatility.

By investing in a multi-asset fund, our money is spread around a large number of investments and asset types, including those designed to maintain value in falling markets, in order to spread the risk – full detail of the investments is elsewhere in this document.

These investments are held for the long-term benefit of the Fund allowing us to draw down sums when demand for grant awards exceeds our annual grant-in-aid. Therefore, should the value of the investments significantly rise or fall in any one year, this would not immediately impact on our grant-giving. Depending upon the nature of the significant decline or surplus of investment value, and its likelihood for continuing in the medium to long-term, trustees may amend future grant budgets to reflect the impact.

Trustees kept the performance of investments under review through their Investment Panel, which includes three independent members with extensive experience in financial markets. The Investment Panel now reports directly to the Board of Trustees.

Financial assets by category

	2020–21 £'000	2019–20 £'000
Assets per the statement of financial position		
– non-current assets	64,239	39,290
– cash and cash equivalents	86,675	4,020
– loans and receivables	5	210
	150,919	43,520

Financial liabilities by category

	2020–21 £'000	2019–20 £'000
Liabilities per the statement of financial position		
– other financial liabilities		
• grant commitments	102,912	4,210
• operating payables	2	9
• other payables	10,037	158
• accruals	84	64
	113,035	4,441

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 2021.

Financial assets at 31 March 2021

	Book value £'000	Fair value £'000
Cash ¹	86,675	86,675
Investments ²	60,614	64,212
Receivables ³	5	5
	147,294	150,892

Financial assets at 31 March 2020

	Book value £'000	Fair value £'000
Cash	4,020	4,020
Investments	26,436	39,262
Receivables	210	210
	30,666	43,492

Financial liabilities at 31 March 2021

	Book value £'000	Fair value £'000
Grant payables ⁴	102,912	102,912
Operating payables ⁵	2	2
Other payables ⁵	10,037	10,037
Accruals ⁵	84	84
	113,035	113,035

Financial liabilities at 31 March 2020

	Book value £'000	Fair value £'000
Grant payables	4,210	4,210
Operating payables	9	9
Other payables	158	158
Accruals	64	64
	4,441	4,441

Basis of fair valuation:

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

Maturity of financial liabilities

	2020–21 £'000	2019–20 £'000
In less than one year	113,032	4,434
In more than one year, but less than two	3	2
In two to five years	0	5
In more than five years	0	0
	113,035	4,441

20. Statement of losses and special payments

NHMF made no losses or special payments during the year (2019–20: £0).

21. Segmental reporting

The distribution of funds on behalf of DCMS, DEFRA and some devolved administrations has obviously had a significant impact on our cost structure. However, the Senior Management and the Board considers that separate accounts were not required to be prepared because it does not represent a change of type or area of activity.

22. Events after the reporting period

There were no events that occurred after 31 March 2021 up until the date the Accounting Officer signed these accounts that need to be disclosed. The financial statements were authorised for issue on 7 July 2021 by the Trustees and Accounting Officer on the date they were certified by the Comptroller and Auditor General.

23. Staff costs

	2020–21 £'000	2019–20 £'000
Salaries	3,720	101
Employer's NI payments	370	11
Payments to pension scheme	757	12
Temporary staff costs	73	15
	4,920	139

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

24. Contingent liabilities

	2020–21 £'000	2019–20 £'000
Brought forward at start of year	0	0
Commitments in year	705	0
De-commitments	0	0
Balance carried forward at end of year	705	0

Due to unusual circumstances, we have a few emergency grant awards initially made in March 2021 that now require further assessment and review. Hence there is uncertainty around whether these awards will be recognised in full. These decisions are now being represented as contingent liabilities until resolution of the reviews.

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 2020–21. 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

	Number of representatives
Trade union representatives	21
FTE trade union representatives	19.06

Percentage of working hours spent on facility time

Percentage of working hours	Number of representatives
0%	0
1–50%	21
51–99%	0
100%	0

Total pay bill and facility time costs

Total cost of facility time	£35,240
Total pay bill	£16,074,000
Percentage of pay spent on facility time	0.22%

Paid trade union activities

Hours spent on paid facility time	99
Percentage of total paid facility time hours spent on paid TU activities	50%

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' Responsible 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 Responsible 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 2021 and will be updated annually in the annual report.

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. 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.

Responsible Multi-Asset Fund – Investment Selection

Global equities	54.80%
Schroder Global Sustainable Growth	54.80%
Thematic equities	16.50%
Impax Environmental Markets Fund	3.00%
M&G Positive Impact Fund	3.90%
Montanaro Better World Fund	2.00%
Pictet Nutrition	3.00%
Schroders Global Energy Transition Fund	4.60%
Equities	71.30%
Property	3.30%
Charities Property Fund	1.10%
Property Income Trust for Charities	2.20%
Diversifiers*	11.50%
BBGI Infrastructure	0.50%
Gresham House Energy Storage Fund	0.90%
International Public Partnerships	0.80%
Octopus Renewables Infrastructure	1.20%
Schroder BSC Social Impact Trust	0.70%
The Renewables Infrastructure Group	1.30%
Trojan Ethical Fund	2.00%
Wisdom Tree Physical Gold	4.10%
Alternatives	14.80%
Bonds	9.10%
Charity Bond Fund	2.00%
iShares USD Treasury Bond	1.20%
Lombard Odier Global Climate Bond Fund	1.50%
Lyxor Core US TIPS	2.00%
Threadneedle UK Social Bond Fund	1.50%
1.25% United Kingdom Treasury Stock 41	1.00%
Cash	4.80%
Cash	4.80%
Bonds and cash	13.90%

Source: Cazenove 31 March 2021

* Diversifiers are non-traditional assets that provide exposure to different groups of investment opportunities. They are complementary assets that sometimes include private equity, venture capital, private debt, hedge funds, property and currency.

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NHMF Chair and Trustees

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