

Annual Report & Accounts

2002/03



ENGLISH HERITAGE

Introduction

I am pleased to present English Heritage's Annual Report and Accounts. This report contains our statement of accounts for 2002/03 and shows our performance against the targets we agreed with our sponsoring government department, the Department for Culture, Media and Sport. The analysis is enhanced by our key facts section, which highlights a selection of our achievements during 2002/03.

In particular I would like to congratulate Dr Simon Thurley on the work he has done during his first year as Chief Executive to develop English Heritage's vision for the future, culminating in a challenging modernisation programme which began in April this year. Meanwhile, if you would like more information about English Heritage, or additional copies of this Annual Report and Accounts, please visit our website www.english-heritage.org.uk or contact our customer services team on 0870 333 1181.



Sir Neil Cossons

Chairman

Annual Report 2002/03

English Heritage champions England's historic environment for people of today and future generations. We want people to understand, value, care for and enjoy this country's unique inheritance of historic buildings and landscapes, and we want the historic environment to be at the heart of the national agenda. We also want to continue to develop access opportunities, education and outreach activities at our sites and in local communities. We are grateful to all those, listed in the *Annual Report*, who have supported us in the past year.

FIT FOR THE FUTURE

In May 2002 the Department for Culture, Media and Sport (DCMS) conducted its regular Quinquennial review of the organisation and concluded that, although our core purpose remained vital, we needed to modernise ourselves to provide a better service for our customers, clients and partners. We welcomed the opportunity of transforming the way we do our business and, as a first step, carried out a fundamental restructuring of our operational departments. Further changes will take place over the next two years as we complete the modernisation programme.

Our objectives cover three key areas:

- improving understanding of the past by research and study
- promoting the historic environment by opening up our properties and increasing access through education
- protecting our historic places and ensuring change is managed sensitively

IMPROVING UNDERSTANDING

We are at the forefront of increasing understanding of the past and identifying what is significant about England's historic environment. In November 2002, in response to government recommendations and in collaboration with the entire heritage sector, English Heritage produced a first-ever national audit. Entitled *The State of the Historic Environment*, it will become an annual benchmark against which future success and failure can be measured.

PROMOTING ENJOYMENT

Getting people excited about our historic past is crucial. We do this in a number of ways. During 2002/03 we welcomed 5.54 million people to our properties and provided 479,000 free educational visits for school children – a 5% increase on 2001/02. We are also committed to electronic access through our Images of England project which, when complete, will provide a photographic record of listed buildings in England at the turn of the millennium.

We sponsor the Civic Trust's Heritage Open Days which help build public understanding and appreciation of the local historic environment. This

year some 800,000 people visited 1,803 properties, many not normally open to the public.

We also introduced a new membership pricing structure which allows all young people under the age of 19 to visit our sites free of charge with a member. And as part of our long-term programme to improve the quality of visitor facilities, we completed two major development projects: an award-winning new interpretation centre at Whitby Abbey in North Yorkshire, and a highly acclaimed re-presentation of the internationally important Wernher Collection at Ranger's House in London.

ENABLING SENSITIVE CHANGE

In 2002/03 we launched the fifth annual round of our popular Heritage Economic Regeneration Schemes. These are especially targeted to improve England's most deprived urban and rural communities through conservation-led regeneration. We also continued to work towards securing the future of the 1,600 Grade I and II* listed properties identified in the 1999 Buildings at Risk Register and, in 2002/03, brought the total removed from the register to 21.7%. During the year we also advised on 14,625 applications for planning, listed building and scheduled monument consent.

In total, we gave £39.1m in grants to historic buildings, landscapes, places of worship, conservation areas and archaeological projects. In addition, this was the first year of our new and simplified places of worship grant scheme run in partnership with the Heritage Lottery Fund. Under the new scheme, grant offers totalling £2.1m were made during the year to 270 places of worship. In April 2002 English Heritage was also appointed by the Department for Environment Food and Rural Affairs (DEFRA) as one of the official distributors of the Aggregates Levy Sustainability Fund, a scheme designed to tackle some of the problems imposed on the countryside by aggregates extraction.

English Heritage's objectives and targets are set out in our Funding Agreement with the DCMS. Our performance against these targets during 2002/03 is set out in the following sections. This represents some of what we have accomplished over the past year, but our wider objectives for the historic environment can only be achieved in partnership with other institutions with similar interests. We continue therefore to work with national and local government and with other heritage organisations to build capacity across the sector, to pool resources and to maximise the benefits of our work for both the people of today and for future generations.



Dr Simon Thurley
Chief Executive

Performance against targets 2002/03

DCMS objective I

Sustain and develop quality, innovation and good design; create an efficient and competitive market, including by removing unnecessary regulation and other obstacles to growth so as to develop the tourism and creative industries; and promote Britain's success in the fields of culture, media and sport at home and abroad.

To encourage innovation and partnership across the historic environment sector English Heritage will:

- Ia** Maintain a rolling programme of seminars on European funding opportunities at regional level, aiming to hold a minimum of 1 seminar in each region every second year. In 2002/03 we will hold 3 professional seminars on European funding opportunities at regional level.

Target achieved

Seminars were held in Cambridge, London and York and a further 2 in Manchester and London were held after the year end. These informed key players from the historic environment sector of the important role European funding plays in heritage and regeneration work and also provided details about how to access the EU structural funds scheduled for distribution during 2000–2006. The seminars were attended by a total of 158 delegates including representatives from civic trusts, local authorities, churches and the National Trust. Post-seminar evaluation, on each occasion, elicited a positive response about the value and quality of the presentation and about the information provided. As the bidding for structural funds will close in 2004, English Heritage will review its seminar programme and tailor it to future EU funding opportunities.

- Ib** Explore how the historic environment sector can better exploit the potential of commercial sponsorship and other private sector funding as recommended by *A Force for our Future*. In 2002/03 we will host 4 seminars in association with Arts & Business.

Target achieved

A number of meetings have been held with representatives from the private sector in order to explore opportunities for securing fundraising and sponsorship income for English Heritage projects. A pledge of £3m has been secured from a private sector source and this will be committed primarily to garden projects. Around £553k has been secured through donations and legacy income. The launch of a corporate partnership scheme is planned for the summer of 2003. Four Introduction to Fundraising seminars were delivered for English Heritage staff, three of which were in conjunction with Arts & Business presenters. The seminars were held in Bristol, York and 2 in London, with a total of 46 attendees. Participants included officers working on English Heritage grant schemes so they can advise future grant recipients how they might secure additional funding. In addition, we provided financial support to the Architectural Heritage Fund to produce an on-line directory of fundraising resources, to be launched in 2003/04 and to be available sector-wide.

To encourage sustainable development and to provide a more efficient advisory service to owners, developers and planners, English Heritage will:

- Ic** Promote the introduction of simplified historic environment legislation, clearer policy guidance and streamlined consent processes. In 2002/03 we will contribute to the reform of the planning system, including the redrafting of Planning Policy Guidance Notes 15 and 16.

Target mainly achieved

Throughout 2002/03 we worked closely with the Office of the Deputy Prime Minister (ODPM) on the reform of the planning system and the revision of planning policy on the historic environment. The Planning and Compulsory Purchase Bill, introduced into Parliament in 2002, took account of many of the comments that we and others had made on the green paper. Since then we have also been working closely with the DCMS and ODPM on the forthcoming review of heritage designation.

- Id** Ensure that government and the sector have access to reliable information about the character, condition and socio-economic contribution of the historic environment for the

Performance against targets 2002/03 (continued)

purposes of evidence-based decision-making. In response to government recommendations we will publish the first *State of the Historic Environment Report* by December 2002. This will be the first in an annual reporting cycle to examine change in the historic environment.

Target achieved

The first *State of the Historic Environment Report* was published in November 2002. There was very healthy national, regional and local media coverage of the issues raised in the report. In order to provide appropriate levels of coverage, 11 documents were simultaneously launched: a high level summary document, a detailed data document and 9 regional fact sheets.

DCMS objective 2

Broaden access for all to a rich and varied cultural and sporting life and to our distinctive built environment; and encourage the conservation of the best of the past.

To encourage broader popular appreciation of the historic environment and improve the quality of the services it offers to visitors to its properties, English Heritage will:

- 2a** Review, in line with the recommendations of the Quinquennial Review, the way in which its historic properties portfolio is managed and ensure that new management arrangements are agreed by June 2002 and implemented by December 2002.

Target achieved

The management of the historic properties and sites as visitor attractions was separated from the statutory side of English Heritage's work and a new group, Properties and Outreach, was created. This group is responsible for improving customer service and profitability, and widening access via education and outreach programmes.

To deliver these objectives the group has been structured into five departments, two of which, Visitor Operations and Education and Outreach, are new. Eleven new posts were created and filled: a Director of Visitor Operations, an Assistant Director for each of the nine regions, and a Director of Education and Outreach. To complete the restructuring, regional outreach posts will also be created in the next financial year.

Reviews of property presentation and customer service were begun with the aim of establishing national standards of presentation and customer care which can be implemented locally. A separate project, Property Prioritisation, addressed the Quinquennial Review criticisms that English Heritage did not have a strategic approach to capital investment. This project identified 60 properties with commercial and outreach potential, and shortlisted 20 for investment in a 3-year period beginning 2003/04.

- 2b** We will increase spontaneous public awareness of English Heritage by 5% from 32% in 2001/02 to 37% in 2003/04; achieving 33.5% awareness by 2002/03.

Target achieved

The 2003/04 target for spontaneous public awareness of English Heritage was achieved in 2002/03.

- 2c** Seek to increase our 3-year moving average market share of the total historic attractions market from 9.6% to 9.7% in 2002/03. We will also demonstrate that people have enjoyed their visit and that it has met or exceeded their expectations by seeking to maintain our annual visitor satisfaction rating at at least 8.5 out of 10.

Target likely to be achieved

The official figure for market share is dependent on the English Tourism Council's final assessment (now VisitBritain) which will be published in October 2003. Latest forecasts, however, suggest that our market share remained unchanged between 2001/03. Visitor satisfaction ratings were maintained at 8.8 out of 10.

Performance against targets 2002/03 (continued)

DCMS objective 2 (continued)

To ensure that properties that have received public funds for their repair are easily and openly accessible to the public, English Heritage will:

- 2d** Publish an annual list of grant-aided properties that are open to the public, in hard copy (by December 2002) and electronic form (by January 2003).

Target achieved

The access list is available electronically through the English Heritage website and is available in *Hudson's Historic Houses and Gardens*.

- 2e** We will ensure that access requirements are being met through an annual questionnaire and through the use of mystery shopper surveys, aiming to achieve 90% compliance with agreed opening arrangements in 2002/03.

Target achieved

The annual public access declaration form was circulated and 99% have been returned. These forms self-certify adherence to the arrangements for providing access contained within grant conditions. During 2002/03 we carried out a mystery shopper exercise on a sample of grant-aided properties, targeting those that are not visitor attractions in their own right and in particular those at which we have a specific concern or which are by appointment. No problems were identified.

To broaden access to the built environment and to encourage a greater interest in it, English Heritage will:

- 2f** Ensure, through the Civic Trust, that a minimum of 2,000 properties and events are available on an annual basis in the Heritage Open Days Scheme and that the scheme becomes accessible to wider audiences by maintaining the number of days over which it operates at 4 days.

Target exceeded

Heritage Open Days took place over 4 days in September 2002 involving 1,803 properties, 236 guided tours and 138 events giving a total figure of 2,177 properties open and events taking place.

- 2g** Work with the DCMS and the historic attractions sector to identify ways of increasing the number of visits to historic sites by young people, including consultation on the potential benefits of a free access scheme for children.

Target achieved

English Heritage led a sector-wide review of whether the policy of free access (as for museums) could be extended to the historic environment. The review concluded that this approach would not be economically sustainable if adopted across the board. Alternative initiatives have been introduced at English Heritage sites including a new membership scheme which gives free access to everyone under 19 years of age accompanying a member. We have also developed an Education and Outreach Strategy to increase the number of formal and informal visits to our sites by young people.

To provide people with easier access to information about the historic environment and the places in which they live, English Heritage will:

- 2h** Measure progress towards electronic dissemination of information by making at least 500,000 records relating to archives, historic sites and buildings available on-line by 2004/05, including those relating to the 370,000 listed building records and linked images of them obtained through our Images of England volunteer project. The target was revised to 554,500 for 2002/03.

Original target exceeded; new target mainly achieved

We exceeded the original target. 532,138 records are already on-line, including 370,000 listed buildings textual records linked to 70,365 images available through the Images of England website. We are on course to meet the revised target by autumn 2003 when a further 345,119 site-based records will be made available through the *PastScape* website.

Performance against targets 2002/03 (continued)

DCMS objective 2 (continued)

To ensure that future generations have access to the most significant sites and buildings inherited from the past, English Heritage will:

- 2i** Measure its success in securing long-term solutions for the repair and ongoing maintenance of Buildings at Risk by increasing the proportion of Grade I and Grade II* listed buildings and structural scheduled monuments removed from the 1999 register to 18% by the end of 2002/03.

Target achieved

Since 1999 a total of 21.7% have been removed from the 1999 register as their future has been secured.

- 2j** Use the prototype Scheduled Monuments at Risk register completed for the East Midlands as the basis for implementing a national register of Scheduled Monuments at Risk. In 2002/03 we will initiate a programme of 9 regional Monuments at Risk projects, for completion by October 2004.

Target achieved

The East Midlands Scheduled Monuments at Risk pilot project has been completed and its results evaluated. Work is underway on a database for the national roll-out which is expected to commence in September 2003. The interim results from the pilot project have been used to influence DEFRA's Agri-environment Review and pilot work for the Government's new 'countryside quality' sustainability indicator.

DCMS objective 3

Develop the educational potential of the nation's cultural and sporting resources; raise standards of cultural education and training; and ensure an adequate skills supply for the creative industries and tourism.

To demonstrate our influence in introducing pupils and students of all ages to the historic environment, we will:

- 3a** Increase the number of children participating in free educational visits to our properties to 453,000 in 2002/03.

Target achieved

The figure of 453,000 is broken down to 413,000 for our own sites and 40,000 for our Local Management Agreement (LMA) sites. We exceeded the target by welcoming 427,000 to our own sites and 52,000 to our LMA sites, giving a total of 479,000.

- 3b** Measure our impact on the teaching profession through the level of demand for our teacher and NVQ training courses and the number of colleges which invite us back for repeat visits. In 2002/03 we will organise a programme of courses in each region and at the National Monuments Record Centre for teachers, newly qualified teachers and students in teacher training, covering our own properties and the wider historic environment.

Target achieved

The planned programme of 12 one-day courses for initial teacher trainees and newly qualified teachers has been completed. These courses focused on how teachers can use historic sites and the local historic environment. A further 7 courses were held at the specific request of colleges or universities, 4 of which were repeats in response to demand. In addition, we were the main contributors to a major one-off seminar involving 130 initial teacher trainees. The total number of newly qualified and initial teacher trainees benefiting from English Heritage courses was 523. Evaluations were overwhelmingly positive, 79% saying that their own and the college/school's objectives had been fully met.

Performance against targets 2002/03 (continued)

DCMS objective 4

Ensure that everyone has the opportunity to develop talent and to achieve excellence in the areas of culture, media and sport.

To encourage excellence in research and to promote the development of professional knowledge and training, English Heritage will:

- 4a** Develop a research strategy to co-ordinate research activity across the sector; meet the information needs of the sector and encourage co-operation between research partners.

Target achieved

A draft research strategy is in the final stages of preparation and we will be taking it out for consultation with research partners and networks during the autumn of 2003.

- 4b** Disseminate the results of its own research and that of others to the widest possible audience through publication and professional conferences. In 2002/03 we aim to publish at least 6 monographs, 10 technical publications and organise at least 4 professional conferences on the historic environment and its conservation.

Target partly achieved

We published 7 research monographs, together with 4 technical publications from our Building Conservation and Research Team (with a further 2 being published after the year end). The first conference in the programme, on building maintenance, took place in November 2002. A number of factors, including staff vacancies, mean that the remainder of the conferences have had to be rolled forward to 2003/04.

DCMS objective 5

Maintain public support for the National Lottery and ensure that the money raised for good causes supports DCMS's and other national priorities.

While no specific targets were set for this objective, English Heritage acts as a statutory consultee for the Heritage Lottery Fund (HLF) and works closely with the fund on major projects and, where appropriate, on strategy development. A significant step forward was taken in 2002/03 to promote training when, on the advice of English Heritage and others, it was made a requirement that all projects in receipt of HLF grants of over £1m produce a training plan to support the development of skills among the heritage workforce.

During 2002/03 English Heritage and the Heritage Lottery Fund announced that, from December 2003, all grants offered under the jointly funded scheme for repair grants to places of worship would be conditional on the applicant having a conservation accredited architect or building surveyor as their lead professional to specify and certify the necessary repairs. This measure is designed to raise technical standards, and its full impact will come into force when offers begin to be accepted in early 2004.

Performance against targets 2002/03 (continued)

DCMS objective 6

Promote the role of the Department's sectors in urban and rural regeneration, in pursuing sustainability and in combating social exclusion.

To ensure that its conservation grants are contributing to social and economic regeneration, English Heritage will:

- 6a** Monitor the number of m² of commercial space improved per £10,000 investment through our Heritage Economic Regeneration schemes (HERs). In 2002/03 we will monitor economic performance during the 2nd and 3rd years of the schemes.

Target achieved

An assessment of the schemes developed between June 1999 and September 2002 shows that each £10,000 delivers:

- £46,000 of match funding leveraged from public and private sources
- 41m² commercial space renovated
- 1 improved home
- 1 job created and 1 safeguarded
- 103m² environmental improvements

To promote easier physical and intellectual access to the historic environment and to encourage social integration, English Heritage will:

- 6b** Ensure that its own staff work to best-practice standards in the provision of easier access and the promotion of cultural diversity. In 2002/03 we will increase staff training in cultural awareness, including use of the Race to Train programme.

Target partly achieved

The Corporate Induction Programme now provides an introduction to diversity and social inclusion issues for English Heritage as a way of beginning to raise staff awareness. Work being carried out to review and revise induction manuals and support resources will provide more detail for new staff about the English Heritage policies and procedures which promote access and cultural diversity. The management development programme currently being procured will also integrate diversity and cultural awareness issues into management standards and best practice.

Actions to Improve Delivery

Efficiency

To provide better services to its customers and to respond to the recommendations of *A Force for Our Future* and the 2002 Quinquennial Review, English Heritage will:

- 7a** Review and overhaul the existing organisational structure and complete a review of historic properties management, and of national, regional and local service delivery.

Target achieved

English Heritage undertook a major restructuring exercise in 2002 in order to deliver clearer alignment of the organisation's resources with its key priorities and customer groups. Reviews of property management; national, regional and local service delivery; and of the management of research within English Heritage were carried out as a follow-up to the Quinquennial Review.

- 7b** Continue to work towards Investors in People (IIP) accreditation as a means of developing an appropriately skilled, motivated and rewarded workforce. In 2002/03 we will deliver a package of management training, pay reform and personal development guidance, leading to Investors in People accreditation for at least 30% of departments.

Performance against targets 2002/03 (continued)

Actions to Improve Delivery (continued)

Target partly achieved

Following consultation and agreement with the Trade Unions, we implemented a new pay system which provides more flexibility for managing recruitment processes and linking performance to pay-review. Existing junior and middle management skills programmes have been refined to take account of the new skills and knowledge required by the modernisation programme. A new middle to senior management development programme is being created to enhance strategic leadership and management for driving modernisation and cultural change. Professional, personal and career development processes have been enhanced by the introduction of new personal development leave arrangements, and a secondments policy and supporting guidelines. The revised performance development review scheme is complete and will be implemented in 2003 following a programme of staff training.

These programmes are key to developing our workforce for the future, and for our progress towards IIP accreditation. Over the next 6 months we will assess the extent to which departments are prepared for IIP assessments at the end of 2003.

To ensure better accountability and the more effective application of the public funds delegated to it, English Heritage will:

- 7c** Agree, by December 2002, a new 3-year funding agreement that takes account of the recommendations of *A Force for Our Future* and the combined objectives of the DCMS and other government departments, as recommended by the 2002 Quinquennial Review (QQR).

On target for completion by June 2003

Both DEFRA and ODPM have contributed to the development of the Funding Agreement for 2003/04 – 2006. The agreement focuses on the contribution English Heritage makes to the Government's cross-cutting objectives, to individual departmental objectives and to meeting the recommendations in *A Force for Our Future* and the QQR. A revised completion date for the funding agreement of June 2003 was agreed between English Heritage and the three government departments.

- 7d** Implement a new corporate Risk Strategy, linked to its new DCMS Funding Agreement and Financial Memorandum by September 2002.

Target mainly achieved

Progress with the implementation of the risk management arrangements was dependent upon the modernisation programme, particularly the appointment of new group directors and operational managers. This inevitably, but appropriately, meant that implementation could not be completed until the latter part of the financial year. All but one of the processes were in place and operating by the end of March 2003. The final action, the issue of the supporting guidance notes, was completed by the end of April 2003, by which time a new Financial Memorandum and Management Statement had also been agreed. The revised provisions of the Financial Memorandum were also introduced in the same month.

Key Facts for 2002/03

Increasing Understanding of the Past

- We made 664 recommendations to the Government to spot-list buildings considered to be of historic or architectural interest. 72 recommendations were made to upgrade buildings already on the Government's statutory list and there were 79 recommendations to de-list or downgrade listed buildings.
- 11 additions were made to the list of post-war buildings, including the BT Tower in London and Dungeness Lighthouse in Kent.
- The total number of National Monuments Record Centre records available to the public electronically was increased to 532,138, including 70,365 images and 370,000 listing descriptions for the Images of England project.
- We published 7 research monographs, together with 4 technical publications from our Building Conservation and Research Team.
- 17 Blue Plaques were erected in London and 5 in Birmingham. Their subjects included, in London, the singer and actor Paul Robeson and, in Birmingham, chocolate manufacturers Richard and George Cadbury. In February 2003 Baroness Blackstone announced that the Blue Plaques budget would be doubled from £100k to £200k per annum. This will allow for greater and more rapid expansion of Blue Plaques across the country.

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Conserving and Enhancing the Historic Environment

- We advised on 14,625 applications for planning, listed building and scheduled monument consent.
- 21.7% of buildings and monuments have been removed from the 1999 Buildings at Risk baseline register through direct action. This exceeds our original target to remove 18% by the end of 2002/03.
- We invested £39.1m in grants for archaeology and the conservation of buildings and monuments, including:
 - Secular buildings and monuments grants – £9.4m
 - Places of worship grants – £7.4m
 - Conservation Area grants (including Heritage Economic Regeneration schemes) – £6.9m
 - Cathedral grants – £2.1m
 - Archaeology – £5.4m
 - Other grants – £7.9m
- Our Heritage Economic Regeneration scheme has been running since 1999 and is a vehicle for conservation-led regeneration in partnership with local authorities. There are 4 rounds of Heritage Economic Regeneration schemes currently in operation, involving a total of 237 separate projects. Overall, a total of £39.6m has been given in grant aid in the first 4 years of the scheme.
- Hadrian's Wall became the first UK World Heritage Site to have a second management plan, building on the successes of the first. We supported the Royal Botanic Gardens, Kew, during the evaluation of their successful nomination for World Heritage Site status. We also supported the nomination of the Maritime Mercantile City of Liverpool as a World Heritage Site, the outcome of which is expected in July 2004.
- In June 2002, acting on our advice, the Secretary of State took the exceptional step of initiating compulsory purchase proceedings to ensure the preservation of Apethorpe Hall, a stunning late 15th-century house in Northamptonshire.

Key Facts for 2002/03 (continued)

Broadening Access and Appreciation of the Historic Environment

- There were 5.54m visits to our staffed properties.
- We maintained our visitor satisfaction rating at 8.8 out of 10.
- We maintained our share of the heritage visitor attractions market
- 427,000 pupils and students visited our properties free of charge. A further 52,000 educational visits were made to properties operated within local management agreements.
- We introduced a new membership scheme which enables children accompanying members to visit our sites free of charge.
- In September 2002 1,803 properties participated in Heritage Open Days and attracted approximately 800,000 visitors.
- English Heritage launched proposals for its new Stonehenge Visitor Centre in July 2002. Designed by Australian architect Barrie Marshall of Denton Corker Marshall, the new building will provide a full range of visitor facilities and exhibition space in an exciting new development. In addition, an Office of Government Commerce (OGC) review was carried out to ensure that the project is on track to deliver against plan and achieve its objectives.
- We continue to improve the quality of the visitor experience at our properties. Notable new attractions in 2002/03 included the opening of The Wernher Collection, an eclectic collection of more than 650 works of art in Ranger's House, Greenwich, and the opening of a Contemporary Heritage Garden at Richmond Castle in North Yorkshire. *Sitting Pretty*, an exhibition of interactive contemporary seating which included gigantic sofas and butterfly chairs attracted thousands of new visitors to Belsay Hall in Northumberland.

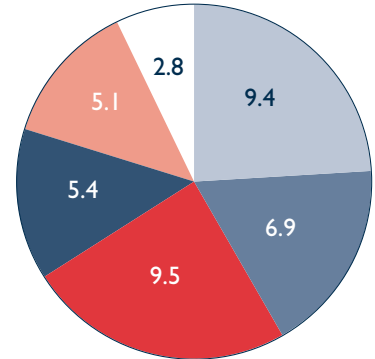
Supporting our Operations

- During 2002/03 we modernised our operational departments by organising them into 5 groups, each with a clear client focus and led by a respected professional. This included separating property management from our statutory advisory functions, a recommendation of the Quinquennial Review. The five groups are Policy and Communications, Research and Standards, Properties and Outreach, Planning and Development, and Resource Management.
- We implemented a new Corporate Risk Strategy.
- We increased our non-government income by £6.6m to £38.4m.
- We attracted £543k in donations.

Key Facts for 2002/03 (continued)

Grant Expenditure (£m)

Secular buildings and monuments	9.4
Conservation areas	6.9
Cathedrals and places of worship	9.5
Archaeology	5.4
Aggregates Levy Historic Environment	5.1
Heritage Grant Fund	2.8
Total	39.1

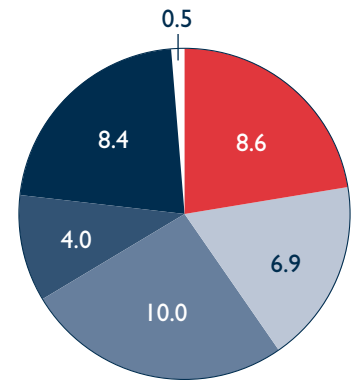


Total expenditure (£m) notional cost of capital excluded

Year	Conservation	Historic properties	Education and outreach	Corporate services	Restructuring and modernisation	Total
97/98	65.5	49.5	6.5	7.0		128.5
98/99	64.3	51.5	6.4	8.1	1.2	131.5
99/00	67.0	55.6	11.9	9.4	5.8	149.7
00/01	67.4	53.7	11.6	9.9	1.4	144.0
01/02 (restated)	65.2	51.9	11.5	10.4	0.8	139.8
02/03	72.7	55.5	13.1	11.0	5.5	157.8

Earned, operating and investment income (£m)

Admissions	8.6
Retail and catering	6.9
Membership	10.0
Other earned income	4.0
Donations, grants and other operating income	8.4
Interest	0.5
Total	38.4



Total income (£m)

Year	Government grant in aid	Other income	Total
97/98	105.4	25.8	131.2
98/99	104.1	28.3	132.4
99/00	112.6	29.8	142.4
00/01	115.2	30.6	145.8
01/02 (restated)	107.9	31.8	139.7
02/03	115.2	38.4	153.6

Accounts 2002/03

Foreword to the Accounts

Background Information

The Historic Buildings and Monuments Commission for England (HBMCE) is a body corporate established on 1 April 1984 by the National Heritage Act 1983. HBMCE consists of up to 17 Commissioners appointed by the Secretary of State for Culture, Media and Sport. HBMCE is an Executive Non-Departmental Public Body (NDPB) sponsored by the Department for Culture, Media and Sport (DCMS). 'English Heritage' is the name of the consolidation of HBMCE and English Heritage Trading Limited.

English Heritage is the lead body in England concerned with the conservation of the built environment. Its principal activities include the management and conservation of over 400 ancient monuments and historic properties in its direct care, the awarding of conservation grants to assist owners of ancient monuments and historic properties and the provision of advisory and education services, including statutory advice to Government.

In 1998 the Secretary of State for Culture, Media and Sport recommended that English Heritage and the Royal Commission on the Historical Monuments of England (RCHME) should merge to form a single lead body for the historic environment. Interim operational merger took place on 1 April 1999 pending the primary legislation necessary for full merger and the dissolution of the RCHME. Prior to legal merger, the two organisations were managed as one, the only exception being those staff, assets and liabilities necessary to carry out the RCHME's marine archaeology functions which English Heritage was not empowered to carry out.

The National Heritage Act 2002 gave English Heritage the power to operate and trade beyond the English mainland. This legislation also allowed the legal merger between English Heritage and the RCHME. The legal merger was completed on 1 December 2002. From that date English Heritage took over the responsibilities for marine archaeology, and the remaining RCHME staff, assets and liabilities were transferred to English Heritage. The transfer had no financial effect on English Heritage as since operational merger it has included a sum in its accounts equivalent to RCHME's net liabilities. The formal dissolution of the RCHME by Royal Warrant will be completed during the year ending 31 March 2004.

On 16 October 2001 the Secretary of State for Culture, Media and Sport initiated a Quinquennial Review of English Heritage's functions and of its efficiency and effectiveness in carrying them out. Stage 1 of this review was carried out during the latter half of the year ended 31 March 2002 and its report and recommendations laid before Parliament and published on 21 May 2002. The principal conclusion of the review was that English Heritage's strategic purposes continue to be valid and that it remains the most appropriate organisation to carry out its core functions on behalf of Government. The review nevertheless identified a number of ways in which the management of those functions could be improved.

In June 2002 the Commission approved a Modernisation Programme formulated by the new Chief Executive and driven by the needs of its external clients including Government. Key to this was the restructuring of English Heritage's operations between 5 customer-focused business groups each led by an Executive Director. The group structure was implemented in October 2002, with some further rationalisation continuing through the remainder of the year.

It was agreed with ministers that the modernisation process should also include implementation of the recommendations arising out of the Quinquennial Review. A formal report on progress was submitted to ministers in January 2003.

Organisational Structure

English Heritage's strategic direction is overseen by its Board of Commissioners who delegate operational management to a Chief Executive appointed by themselves. The Chief Executive also serves as Accounting Officer on behalf of the DCMS. The Chief Executive is supported by an Executive Board comprised of the Group Directors.

Following the implementation of the restructuring under the Modernisation Programme, for operational purposes English Heritage is divided into 5 groups: Research and Standards, Properties and Outreach, Planning and Development, Policy and Communications and Resource Management (note 10).

Foreword to the Accounts (continued)

Commissioners and Senior Employees

The persons who served as Commissioners between 1 April 2002 and 23 July 2003 are detailed in note 13. Details of senior employees are given in note 16c.

Responsibilities of Commissioners

The key responsibilities of Commissioners are to ensure that the statutory responsibilities of English Heritage are undertaken; to provide expert advice and guidance on heritage matters; to establish the overall strategic direction of English Heritage; to oversee and monitor the planned performance against strategic objectives and targets; to ensure the highest standards of probity are used in the administration of funds and to maximise the economical, efficient and effective use of resources for the public good; to ensure the highest standards of corporate governance and to ensure the Commission acts within all statutory and regulatory requirements; to ensure, through the Chief Executive, that the Commission as employer acts in accordance with all relevant legislation and best practice; and to ensure that English Heritage conducts its dealings with the community in an open, responsive and accountable manner.

Register of Interests

English Heritage maintains a record of declarations of interest made by Commissioners. A copy of the Register of Interests is available from the Commission Secretariat Manager, English Heritage, 23 Savile Row, London W1S 2ET.

Result for the Year

The result for the year ended 31 March 2003, after the transfer to the Development and Restricted Funds of £166,000 (2002: £999,000) was a deficit of £170,000 (2002: £1,112,000), increasing the accumulated deficit to £8,456,000 (2002: £8,286,000).

Restatement of Prior Year Comparatives

The accounts for the year ended 31 March 2002 have been restated to include the capitalisation of works to operational buildings and a reclassification of related reserves. The effect of the restatement on 2001/02 is quantified at note 36. The changes have been made in order to fully comply with the Accounts Direction and the Non Departmental Public Bodies Annual Reports and Accounts Guidance.

Pensions

On 30 September 2002 English Heritage was admitted to the Principal Civil Service Pension Scheme (PCSPS). All existing and former English Heritage staff with a current or deferred pension entitlement are now members of the PCSPS. The bulk transfer costs of entry to the PCSPS will be met by HM Treasury. Prior to admission to the PCSPS English Heritage operated an unfunded Pension Scheme (note 17).

Fixed Assets

The movements in fixed assets are set out in notes 18 and 19.

Equal Opportunities and Diversity

English Heritage is committed to employing a diverse workforce and to rising to the challenge of attracting employees from the less well represented ethnic communities. In support of this we will be advertising in a national directory *Ethnic Britain* in July 2003. This is to invite applicants from ethnic communities to look for opportunities within English Heritage in the national and local press as well as professional publications. In addition we will be applying to the Employment Service during 2003 to be able to use the disability user symbol in recruitment advertising and stationery. A survey was also carried out during the year to update ethnicity data for monitoring purposes.

Foreword to the Accounts (continued)

Race Equality

English Heritage is committed to promoting equality and good relations between racial groups both in our policies and service provision and in employment. We are also committed to eliminating racial discrimination through a process of internal scrutiny, positive action and review. Our strategic aims are to acknowledge, respect and celebrate the cultural diversity of England's historic environment in all our activities. Issues of personal and group identity are an intrinsic part of the construction of the historic environment and therefore race equality is an intrinsic part of the management and work of English Heritage.

Performance Against Targets

Performance against Funding Agreement targets is published in the Annual Report.

Communications with Employees

English Heritage recognises the importance of employee involvement and participation in our activities. Formal consultation with employees takes place through meetings of the English Heritage Whitley Council.

Health and Safety

Management of health and safety issues is led by a Director at Board level, with a small team to set policy and audit standards and statistics. A Safety Council of Directors and advisors meets three times a year to review developments. Regional safety co-ordinators ensure liaison between English Heritage's regional offices and corporate centre. Management training in health and safety has been improved with courses run by safety consultants, including a briefing for Executive Board and Senior Directors.

The accident rates for English Heritage staff are relatively low compared to the national average. However, there were 85 staff accidents in 2002/03, 18 more than the previous year. Most were very minor but 7 were reportable to the Health and Safety Executive, a rise of 4 from the previous year.

English Heritage is part of the Visitor Safety in the Countryside Group, which has just published a guide to managing visitor safety for land owners and managers. This sets out methodologies for ensuring a high standard of safety while minimising damage to the historic and natural environment.

Further visitor safety measures were implemented during 2002/03 and accident rates were held down despite a rise in visitor numbers. There were 243 visitor accidents, a rate of 4.43 accidents per 100,000 visits compared to 4.45 last year. The number of visitor accidents requiring hospital referrals, and therefore reporting to the Health and Safety Executive, rose from 25 to 45. The majority of accidents were contributed to by the individuals' actions and remedial actions were not practicable.

Access for People with Disabilities

English Heritage is committed to improving and encouraging access to the historic environment for people with disabilities. This is being achieved by working with and learning from other agencies, organisations and individuals who adopt creative and sensitive solutions in the adaptation and presentation of their properties and other activities and by adopting best practice itself.

Guidance for the sector, *Easy Access to Historic Properties*, is due for consultation and reissue by Autumn 2003. An updated internal policy on access for people with disabilities, together with a new implementation strategy for our own properties, is being finalised. Updated action plans for individual properties based on this strategy will then be implemented.

Environmental Policy and Sustainability

English Heritage is committed to the protection of the built environment and to the principles of sustainability. Following Executive Board approval in April 2003, English Heritage will develop within 12 months its own sustainability policy, in consultation with our stakeholders and the DCMS. English Heritage was also invited to join other stakeholders from the heritage sector to contribute to the consultation of the DCMS sustainability policy.

Foreword to the Accounts (continued)

Environmental Policy and Sustainability (continued)

Recycling of paper, cans, mobile phones and IT consumables continues, with proceeds being donated to charity. A national scheme for all office premises and appropriate larger properties in our care is planned for summer 2003. Energy data continues to be collected to identify potential areas of saving and plans are being developed to include energy as part of our financial reporting systems. Interim guidance on Part L, *Conservation of Fuel and Power*, of the Building Regulations was issued during 2002.

Environmental protection and wildlife conservation are an important aspect in the landscape management of our historic gardens, parks and sites. 30 are Sites of Special Scientific Interest and 53 are of local wildlife importance. Our site maintenance schedules help balance and plan ecologically sensitive management. Our regular ecological surveys have recorded over 3,800 species of flora and fauna and there are many nationally protected species like bats, rare fungi and other Red Data Book species. We will be publishing our peat free policy in 2003, and are working to minimise pesticide use on all sites. The Audley End organic kitchen garden is run in partnership with the Henry Doubleday Foundation as a demonstration garden.

Open Government and Freedom of Information

2002/03 was the first full year of operation of the English Heritage Access to Information policy. In April 2002 English Heritage went fully retrospective with this policy which applies the principles of the Freedom of Information Act to all records and information. This is in accordance with the Commission's decision to implement the principles of the Freedom of Information Act in advance of the legal requirement to do so.

The underlying premise is that information should be made available whenever possible and exemptions are only applied when necessary. This reflects both the corporate and the wider government drive towards greater transparency. The Commission supported this on the basis that it would 'create a visible culture of openness and accountability'.

The Publication Scheme required under the Freedom of Information Act is operational and available on the English Heritage website. Many categories of information have been made accessible through the website and through a series of free publications available from Customer Services. In terms of formal governance arrangements, the minutes of the Commission and most advisory Committees are routinely published on the English Heritage website.

Fees and Charges Guide

HM Treasury guidelines state that the accounts of Executive Non-Departmental Public Bodies should include segmental information as described in paragraphs 3.8 and 3.9 of the Fees and Charges Guide. English Heritage does not publish this information as all services provided are interrelated and contiguous and have the single objective of furthering our heritage aims as stated in the National Heritage Act 1983.

Confederation of British Industry Better Payment Practice Code

English Heritage is a member of the Confederation of British Industry scheme and has established a payment policy which complies with the principles of the Confederation of British Industry Better Payment Practice Code. Invoices received but not paid at 31 March 2003 equated to 10 creditor days (2002: 7 days).

Corporate Governance

English Heritage complies with all the relevant requirements of HM Treasury guidance relating to corporate governance.

Auditors

On 1 January 2003 PricewaterhouseCoopers transferred its entire business to PricewaterhouseCoopers LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. As part of the process English Heritage agreed to transfer the external audit contract to PricewaterhouseCoopers LLP.

Dr Simon Thurley

Chief Executive
23 July 2003

Statement of Commissioners' and Chief Executive's Responsibilities

Under paragraph 12(2) of Schedule 3 of the National Heritage Act 1983, the Commissioners 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, with the consent of HM Treasury. The accounts are prepared on an accruals basis and must show a true and fair view of English Heritage's state of affairs at the year end and of its income and expenditure and cash flows for the financial year.

In preparing the accounts the Commissioners are required to:

- observe the Accounts Direction issued by the Secretary of State, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards have been followed, and disclose and explain any material departures from these in the financial statements;
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Commission will continue in operation.

The Accounting Officer for the Department for Culture, Media and Sport designated the Chief Executive of the Historic Buildings and Monuments Commission for England as the Accounting Officer for English Heritage. His relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of the public finances for which he is answerable and for the keeping of proper records, are set out in the Non-Departmental Public Bodies' Accounting Officer Memorandum, issued by HM Treasury and published in *Government Accounting*.

A copy of the Accounts Direction is available from English Heritage, 23 Savile Row, London, W1S 2ET.

The maintenance and integrity of English Heritage's website is the responsibility of the Commissioners; the work carried out by the auditors does not involve consideration of these matters, and accordingly the auditors accept no responsibility for any differences between the printed copy of the accounts and those presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.'

Dr Simon Thurley

Chief Executive
23 July 2003

Statement on Internal Control

Scope of Responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of English Heritage's policies, aims and objectives, as set out in statute and by Ministers from the Department for Culture, Media and Sport (DCMS), whilst safeguarding the public funds and departmental assets for which I am personally responsible, and ensuring compliance with the requirements of the Financial Memorandum and Funding Agreement, in accordance with the responsibilities assigned to me in Government Accounting.

Accountability within English Heritage is exercised through:

- a governing body, the Commission, as explained in the Foreword to the Accounts;
- an Executive Board, comprising 5 group directors and myself, as the Accounting Officer. Each group director is personally accountable to me for the management of the risks pertaining to their group. Within each group there are delegated authorities to make decisions and incur costs as specified in the Financial Memorandum;
- the audit committee, which is an advisory body with no executive authority. The committee comprises a chairman and 3 members, all of whom are non-executive Commissioners, appointed to the committee by the Chairman of the Commission. The committee has included in their terms of reference, responsibility for advising on and monitoring the adequacy of risk management in English Heritage and have since March 2002 received reports on progress and outputs at each of their meetings. The committee carries out its work by testing and challenging the assurances which are available to me, the way in which these assurances are developed, and the management priorities and approaches on which the assurances are premised. The committee may also seek contributions from others when it considers that work can be enhanced by other specialist support.

The Purpose of the System of Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The system is maintained through an established framework of corporate direction and management, organisational structures incorporating planning, review, monitoring and performance reporting, delegated authority and accountabilities, staff development and communication frameworks, defined policies and procedures incorporating specific controls checks and balances.

The system of internal control has been in place in English Heritage for the financial year ended 31 March 2003 and up to the date of approval of the Annual Report and Accounts, and accords with Treasury guidance.

Capacity to Handle Risk

Responsibility for managing risk is assigned by the group directors to managers in their areas at operational level. All staff must understand and accept responsibility for the recognised risks associated with their area of authority.

The Executive Board is committed to providing staff with support and assistance to enable them to manage their risks effectively. During the financial year ended 31 March 2003 the assistance provided has included induction meetings with newly appointed directors and their risk managers to provide briefings on English Heritage's risk management development, dissemination of corporate risk registers and the practical arrangements for implementing risk management.

A post of Risk Co-ordinator was established to assist the Executive Board to co-ordinate and implement risk management arrangements.

Statement on Internal Control (continued)

Capacity to Handle Risk (continued)

In April 2003 Risk Management Guidance was issued to each group director for them to disseminate the information in their own group, and to aid their discussions with their line managers. The guidance includes a statement of English Heritage's Risk Management Policy (see below), procedures to be followed and supporting information to aid the understanding of risk management principles and guidance.

Risk management training is being incorporated in the Management Development Training Programme that has been created following the Modernisation Programme and will be delivered in the autumn of 2003. Risk management philosophy will also feature in induction training for new staff to help promote a culture of risk management awareness.

Examples of developments in best practice in the management of risk are sought through liaison and networking with HM Treasury and other government departments, leading private sector organisations and our external auditors. The advice gained has been adopted in the development of English Heritage's policy and in guidance issued to staff.

The Risk Environment

In English Heritage the main processes that we have in place for identifying, evaluating, and managing risk are:

- A risk management policy based on a risk appetite for taking only carefully calculated risks, where the potential benefits are judged to outweigh any negative impact(s) that may occur if the risks were to materialise. Risk has been defined as: the threat or possibility that an action or event will adversely or beneficially affect the organisation's ability to achieve its objectives.

The policy defines our risk management objectives, which are to:

- manage risk in accordance with best practice and encourage a culture of risk management across English Heritage;
- anticipate and meet changing social, environmental and legislative requirements that enable us to champion England's historic environment;
- safeguard our assets and minimise opportunities for injury and damage and promote awareness of the need for risk management.

In managing risk we seek to adopt best practices in the identification, evaluation and cost-effective control of risks to ensure that risks are well managed and either eliminated or reduced to an acceptable level, recognising that some risks will always exist and can never be eliminated.

- A corporate risk register and 5 supporting individual group risk registers, which provide: comprehensive information on significant risks and the relevant owners; the risk management control arrangements and opinions on their current effectiveness; and a reporting framework that provides regular assurances on the control arrangements for the risks identified. In 2003/04 the risk registers are being updated to reflect the latest plans for English Heritage's Modernisation Programme.
- Risk monitoring through the audit committee, who at each meeting have received reports on the development and implementation of English Heritage's risk management arrangements. Following completion of the implementation of the risk management arrangements during the year ended 31 March 2003, the committee are to receive updated details on the corporate risks, ownership, management controls and a status report for the year; together with the detailed guidelines issued during the year. In addition they will receive the updated risk register for 2003/04.

A cycle of risk and control identification, ownership recognition, and reports on the effectiveness of the control arrangements, which starts at Executive Board level and progresses through the group directors to the appropriate operational levels in each of the 5 groups and feeds back into the Executive Board reports.

Each group director's risk reporting framework provides for periodic in-year monitoring of risk registers to seek assurances on the management of risks identified and to identify any new risks to

Statement on Internal Control (continued)

The Risk Environment (continued)

be included in the group and/or corporate risk registers as appropriate. The Risk Co-ordinator ensures that group and corporate risk registers are kept up to date and I will receive quarterly reports from group directors on the management of the corporate risks.

In addition to the internal audit opinion on internal control, stewardship reporting has been adopted as part of our risk management procedures. Designated managers at various levels of the organisation are required to report on the work they have done to keep risk and control procedures up to date and appropriate to circumstances within their particular area of responsibility, providing an upward and downward exchange of assurances between operational managers and the Executive Board.

- Designated managers accountable for the ownership and management of risk with levels of reporting between me, group directors and operational management.

The most significant risks during 2002/03 were those arising from the early stages of the Modernisation Programme. These were our dependence on support from the DCMS, the outcome of the Quinquennial Review and the need for us to retain and recruit the key people we needed to maintain our standards and to take us forward to meet the challenge set for us by the *State of the Historic Environment Report 2002* (SHER 2002).

Our management of risk is embedded in policy making, planning and delivery. Line managers are involved in the identification of our significant risks, where each risk has been delegated a senior owner who is accountable for the risk. There are sub-delegations to allocate executive responsibility for the management of the risk and provision of assurance to the risk owner; through to the nomination of the person to whom actual operational responsibility is delegated.

From 1 April 2003 risk management will be integral to operational planning and assessment of delivery of the objectives and targets set out in our Funding Agreement.

Review of Effectiveness

I also have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the managers within English Heritage who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports.

Reports on assurances are obtained from internal audit assignments and the overall annual internal audit opinion on internal control which is provided by the Head of Internal Audit to me and the Audit Committee at each of their meetings.

The Chairman of the Audit Committee provides assurances based on these reports to the Commission.

I am satisfied from the results of my review of the effectiveness of the system of internal control, including the assurances provided by managers, that the risk management processes and corresponding controls systems are in place and give me reasonable assurance of their effectiveness.

Dr Simon Thurley

Chief Executive
23 July 2003

Auditor's Report to the Secretary of State for Culture, Media and Sport and the Commissioners of English Heritage

We have audited the financial statements which comprise the Income and Expenditure Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement and the related notes (notes 1 to 42).

Basis of Preparation

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets, and the inclusion of notional cost of capital required by the Department for Culture, Media and Sport, and the accounting policies set out in the statement of accounting policies (note 1).

Respective Responsibilities of the Commissioners and Auditors

The Commissioners are responsible for preparing the Annual Report, which contains the financial statements, and for ensuring the regularity of financial transactions. It is our responsibility to form an independent opinion, based on our audit, on these statements and on the regularity of the financial transactions included in them and to report our opinion to you. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board and our profession's ethical guidance. We have been appointed as auditors under paragraph 12 of Schedule 3 to the National Heritage Act 1983 and report in accordance with regulations made under that section. This report, including the opinion, has been prepared for and only for the organisation's members as a body in accordance with paragraph 12 of Schedule 3 to the National Heritage Act 1983 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in the form directed by the Secretary of State for Culture, Media and Sport with the consent of HM Treasury, under the provisions of paragraph 12 of Schedule 3 of the National Heritage Act 1983. We also report to you if, in our opinion, the Foreword to the Accounts is not consistent with the financial statements, if English Heritage has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

We are not required to consider whether the Chief Executive's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of English Heritage's governance procedures, or its risk and control procedures.

Basis of Opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes the examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by English Heritage in the preparation of the financial statements, and of whether the accounting policies are appropriate to English Heritage's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations that we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error, or by fraud or other irregularity and that, in all material aspects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Auditor's Report to the Secretary of State for Culture, Media and Sport and the Commissioners of English Heritage (continued)

Opinion

In our opinion the financial statements are in the form directed by the Secretary of State for Culture, Media and Sport with the consent of HM Treasury, under the provisions of paragraph 12 of Schedule 3 of the National Heritage Act 1983 and give a true and fair view of the state of the affairs of English Heritage at 31 March 2003 and of its deficit and cash flow for the year then ended.

In our opinion in all material respects the income and expenditure have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

London

29 July 2003

English Heritage Consolidated Income and Expenditure Account for the Year Ended 31 March 2003

	Note	2003 £'000	2002 Restated £'000
INCOME			
Earned Income	2	29,497	26,931
Other Operating Income	3	8,365	4,187
Investment Income	4	539	623
Government Grant in Aid	5	115,156	107,914
TOTAL INCOME		153,557	139,655
EXPENDITURE			
Conservation	6	72,711	65,238
Managing our Historic Properties	7	55,480	51,863
Education and Outreach	8	13,063	11,496
Corporate Services	9	11,048	10,366
Notional Cost of Capital		1,242	1,098
TOTAL EXPENDITURE		153,544	140,061
SURPLUS/(DEFICIT) FOR THE FINANCIAL YEAR BEFORE EXCEPTIONAL ITEMS			
		13	(406)
Restructuring and Modernisation	10	(5,491)	(805)
Release of Accumulated Pension Transfer Values	17	4,232	–
DEFICIT FOR THE FINANCIAL YEAR AFTER EXCEPTIONAL ITEMS		(1,246)	(1,211)
Notional Cost of Capital		1,242	1,098
ADJUSTED DEFICIT FOR THE FINANCIAL YEAR		(4)	(113)
Transfer to the Development and Restricted Funds	33	(166)	(999)
INCOME AND EXPENDITURE ACCOUNT DEFICIT		(170)	(1,112)
Accumulated Deficit at 1 April	31	(8,286)	(7,174)
ACCUMULATED DEFICIT AT 31 MARCH	31	(8,456)	(8,286)

English Heritage Consolidated Statement of Total Recognised Gains and Losses

	Note	2003 £'000	2002 Restated £'000
Adjusted Deficit for the Financial Year		(4)	(113)
Unrealised Surplus on the Revaluation of Tangible Fixed Assets	19	426	461
TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE YEAR		422	348
Prior Period Adjustments re Fixed Assets	36	6,352	–
TOTAL GAINS AND LOSSES RECOGNISED SINCE LAST ANNUAL REPORT		6,774	–

English Heritage Consolidated Balance Sheet as at 31 March 2003

	Note	2003 £'000	2002 Restated £'000
FIXED ASSETS			
Intangible Assets	18	146	110
Tangible Assets	19	31,637	29,502
		31,783	29,612
CURRENT ASSETS			
Stocks	24	2,619	2,772
Debtors	25	8,111	7,045
Short Term Investments	26	12,843	8,001
Cash at Bank and in Hand	35	236	567
		23,809	18,385
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR			
Bank Overdraft	35	(5,255)	(2,872)
Creditors	27	(15,689)	(16,259)
		(20,944)	(19,131)
		2,865	(746)
NET CURRENT ASSETS/(LIABILITIES)			
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	28	(1,745)	(1,533)
PROVISIONS	29	(4,942)	(1,539)
TOTAL ASSETS LESS LIABILITIES		27,961	25,794
RESERVES			
Capital Reserves	32	31,783	29,612
Development and Restricted Funds	33	4,634	4,468
Income and Expenditure Account	31	(8,456)	(8,286)
TOTAL RESERVES		27,961	25,794

The financial statements, which comprise the Income and Expenditure Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 42, were approved by the Commissioners of English Heritage on 23 July 2003 and signed on their behalf by:

Sir Neil Cossons
Chairman

Dr Simon Thurley
Chief Executive

HBMCE Balance Sheet as at 31 March 2003

	Note	2003 £'000	2002 Restated £'000
FIXED ASSETS			
Intangible Assets	18	146	110
Tangible Assets	19	31,637	29,502
Investments	23	2,028	2,028
		33,811	31,640
CURRENT ASSETS			
Stocks	24	619	571
Debtors	25	9,702	8,956
Short Term Investments	26	11,500	6,750
Cash at Bank and in Hand	35	236	567
		22,057	16,844
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR			
Bank Overdraft	35	(5,255)	(2,872)
Creditors	27	(15,965)	(16,746)
		(21,220)	(19,618)
		837	(2,774)
NET CURRENT ASSETS/(LIABILITIES)			
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	28	(1,745)	(1,533)
PROVISIONS	29	(4,942)	(1,539)
TOTAL ASSETS LESS LIABILITIES		27,961	25,794
RESERVES			
Capital Reserves	32	31,783	29,612
Development and Restricted Funds	33	4,634	4,468
Income and Expenditure Account	31	(8,456)	(8,286)
TOTAL RESERVES		27,961	25,794

The financial statements, which comprise the Income and Expenditure Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 42, were approved by the Commissioners of English Heritage on 23 July 2003 and signed on their behalf by:

Sir Neil Cossons
Chairman

Dr Simon Thurley
Chief Executive

English Heritage Consolidated Cash Flow Statement for the Year Ended 31 March 2003

		2003	2002
	Note	£'000	Restated £'000
OPERATING ACTIVITIES			
Government Grant in Aid	5	116,387	110,397
Cash Outflow from Operating Activities		(112,896)	(109,249)
NET CASH INFLOW FROM OPERATING ACTIVITIES	34	3,491	1,148
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Investment Income		542	625
CAPITAL EXPENDITURE			
Payments to Acquire Fixed Assets		(3,682)	(6,307)
Proceeds from the Sale of Fixed Assets		16	11
		(3,666)	(6,296)
MANAGEMENT OF LIQUID RESOURCES			
Payments into Short Term Investments		(240,935)	(228,907)
Withdrawals from Short Term Investments		236,093	230,030
	35	(4,842)	1,123
FINANCING			
Grants received credited to the Capital Reserves		1,761	4,878
(DECREASE)/INCREASE IN CASH	35	(2,714)	1,478

Notes to the Financial Statements

I Statement of Accounting Policies

a) Accounting Convention

The financial statements are prepared in accordance with applicable accounting standards under the historical cost convention, as modified by the inclusion of land and buildings at current value (note 1, i).

English Heritage Trading Limited, a subsidiary undertaking of HBMCE, continued trading throughout the year ended 31 March 2003 and hence the financial statements include a consolidation of HBMCE and English Heritage Trading Limited.

b) Income

Income is shown net of Value Added Tax.

c) Membership Income

Membership income is recognised in the Income and Expenditure Account in full, as it is received, with the exception of life membership income which is released to the Income and Expenditure Account over 25 years.

d) Government Grant in Aid Receivable

Parliamentary grant is voted to meet English Heritage's cash payments falling due during the financial year. English Heritage accounts for its expenditure on an accruals basis, thus incurring liabilities during a year which may not need to be satisfied by cash payments until future financial years.

Government Grant in Aid used to purchase, enhance or create fixed assets is held on the Balance Sheet as part of the Government Grant Reserve and is released to the Income and Expenditure Account as the assets are depreciated.

e) Other Grants Receivable

Other Grants Receivable are recognised in the Income and Expenditure Account and Balance Sheet when the conditions of grant have been fulfilled and a claim made.

Non Government Grants used to purchase, enhance or create Fixed Assets are held on the Balance Sheet as part of the Non Government Grant Reserve and are released to the Income and Expenditure Account as the assets are depreciated.

Lottery Grants used to purchase, enhance or create Fixed Assets are held on the Balance Sheet as part of the Donated Asset Reserve and are released to the Income and Expenditure Account as the assets are depreciated.

European Union Grants used to purchase, enhance or create Fixed Assets are held on the Balance Sheet as part of the European Union Grant Reserve and are released to the Income and Expenditure Account as the assets are depreciated.

f) Grants Payable

Grants payable to individuals and bodies by English Heritage in accordance with its statutory powers and duties are accounted for as they are approved for payment. No provision is made in the financial statements for grant offers made but not yet approved for payment, although they are quantified at note 37.

g) Notional Costs

The Income and Expenditure Account result for the year is arrived at after charging a notional cost of capital calculated at 6% of the average total assets less liabilities during the year, excluding assets not funded by Government Grant in Aid and historic artefacts and archives.

Notes to the Financial Statements (continued)

I Statement of Accounting Policies (continued)

h) Intangible Fixed Assets

Licences to use software purchased from third parties with a life of more than one year are shown on the Balance Sheet as Intangible Fixed Assets and amortised over the life of the licence or the life of the related asset where there is no licence expiry date.

Annual licences to use software are charged to the Income and Expenditure Account as they are incurred.

Expenditure on developing publishing titles and the English Heritage brand is charged to the Income and Expenditure Account as it is incurred.

i) Land and Buildings

Land and buildings owned by, or in the guardianship of, English Heritage are treated as Fixed Assets in accordance with the NDPB Annual Reports and Accounts Guidance and are classified as either:

- Pure heritage assets (non-operational heritage assets)
- Operational heritage assets, or
- Operational (non-heritage) assets.

Pure heritage land and buildings, held by English Heritage in pursuit of its overall objectives in relation to the enjoyment and preservation of the heritage, are not treated as Fixed Assets. Any expenditure on these assets is charged to the Income and Expenditure Account as it is incurred.

Operational heritage land and buildings, which in addition to being held by English Heritage in pursuit of its overall objectives are also used for revenue generating or other non-heritage purposes, are professionally valued and held on the Balance Sheet. The valuation method used depends upon the type of the building, its use and any conditions attached to its disposal.

Operational (non-heritage) land and buildings are professionally valued and held on the Balance Sheet. The valuation method used depends upon the type of the building, its use and any conditions attached to its disposal.

Mixed use buildings are classified according to the majority use. Classification and valuations of vacant properties are informed by the type of the building and its intended future use.

All land and buildings held on the Balance Sheet are subject to a full professional valuation every five years. The date of the last full valuation was 31 March 2001. Interim valuations are carried out only where a material change in value is suspected. None of the land and buildings held on the Balance Sheet are leasehold.

Any unrealised gain on revaluation at the Balance Sheet date is taken directly to the Capital Reserves, as follows:

- Assets funded by Government Grant in Aid: Government Grant Reserve
- Assets funded by European Union grant: European Union Grant Reserve
- Assets funded by lottery grants or donations: Donated Asset Reserve
- Assets funded by other grants: Non Government Grant Reserve
- Assets funded by restricted funds: Restricted Fund Asset Reserve

Unrealised losses at the Balance Sheet date are written off against the proportion of the credit balance on the relevant Capital Reserve which relates to the assets concerned. Any other unrealised losses are charged to the Income and Expenditure Account.

The values of the land and buildings held as Fixed Assets are reviewed annually using relevant indices published by the Office of National Statistics. Any change in value is reflected in the relevant Capital Reserve.

Notes to the Financial Statements (continued)

I Statement of Accounting Policies (continued)

j) Historic Artefacts and Archives

In accordance with the NDPB Annual Reports and Accounts Guidance, additions to historic collections and archives purchased after 1 April 2001 are recorded in the Balance Sheet at cost.

k) Plant, Vehicles, Equipment and Fixtures

Plant, vehicles, equipment and fixtures are initially recorded in the Balance Sheet at cost. Subsequent expenditure is recorded on the Balance Sheet if the expenditure enhances the economic benefits of the asset.

These assets are reviewed annually to ensure that the carrying value remains appropriate. Revaluation and impairment adjustments are made where the adjustment is material.

l) Assets Under Construction

Assets under construction comprise expenditure on the creation or enhancement of Fixed Assets not brought into use at the Balance Sheet date. Transfers are made from assets under construction to the relevant category of Fixed Asset when the asset is brought into use.

m) Donated Assets

Assets donated by third parties, either by gift of the asset or by way of funds for the asset, will be treated as Fixed Assets and held at current value on receipt.

Donated assets will only be treated as Fixed Assets if the asset would have been subject to this treatment had it been purchased by English Heritage from its own resources.

Donated assets are revalued in the same way as other Fixed Assets.

n) Depreciation

Depreciation is provided on Tangible Fixed Assets, excluding land and assets under construction, in equal amounts each year in order to write down their cost to their estimated residual value over their anticipated useful economic lives. These are as follows:

Non-heritage buildings	
– Dwellings	50 years
– Other brick/stone buildings	50 years
– Non brick/stone: visitor centres, shops museums, exhibition buildings	25 years
– Other non brick/ stone structures	20 years
Refurbishments	10 years
Plant and vehicles	5 years
Equipment and fixtures	4-5 years

When considering anticipated useful economic lives, regard is had to the Financial Reporting Standard 15 requirement to identify assets which have distinct major components with substantially different useful economic lives. Where such assets are identified, separate useful economic lives for component assets are considered.

Operational heritage buildings and historic artefacts and archives are not depreciated, as the length of their anticipated useful economic life is such that depreciation is not considered to be material.

o) Fixed Asset Investments

Fixed Asset Investments, other than those in subsidiary undertakings, are held at current market value. Any unrealised gain at the Balance Sheet date is taken directly to reserves.

Unrealised losses at the Balance Sheet date are written off against the proportion of credit balance on the Capital Reserve which relates to the investment concerned. Any other unrealised losses are charged to the Income and Expenditure Account.

Investments in subsidiary undertakings are held at cost.

Notes to the Financial Statements (continued)

I Statement of Accounting Policies (continued)

p) Stocks

Goods held for resale are stated at the lower of current replacement cost and net realisable value.

Land and buildings held for resale under the 'Revolving Fund' arrangements agreed with the Department for Culture, Media and Sport (DCMS) are treated as current assets. These are shown at the lower of cost and net realisable value. Properties purchased under the 'Revolving Fund' comprise buildings of architectural or historical interest otherwise at risk. These properties are held with the intention of resale once their future has been safeguarded.

q) Operating Leases

Operating lease costs are charged as incurred.

r) Financial Instruments

Cash surplus to immediate cash flow requirements is placed on short term deposit at fixed rates of interest for periods of up to one month in accordance with English Heritage's treasury policy, (note 26).

s) Pension Costs

English Heritage is a member of the Principal Civil Service Pension Scheme (PCSPS). This is a multi-employer defined benefit scheme. English Heritage also operates a by analogy scheme to the PCSPS for the current and previous chairmen. Both schemes satisfy the requirements of applicable accounting standards (note 17).

Notes to the Financial Statements (continued)

2 Earned Income

	2003 £'000	2002 £'000
Admission Income	8,635	8,245
Retail and Catering Income	6,956	6,873
Membership Income	9,989	8,493
Other Earned Income	3,917	3,320
Total Earned Income	29,497	26,931

The Membership Income for 2003 includes £476,000 Value Added Tax recovered in respect of previous years.

3 Other Operating Income

	2003 £'000	2002 Restated £'000
Grants Receivable		
European Community	214	969
Heritage Lottery Fund	1,831	2,184
Government	–	177
Aggregates Levy	5,352	–
Other	434	1,455
Net Transfer to Capital Reserves	(525)	(1,435)
Total Grants Receivable	7,306	3,350
Donations	543	634
Net Transfer to Capital Reserves	(128)	(483)
Other Operating Income	644	686
Total Other Operating Income	8,365	4,187

4 Investment Income

	2003 £'000	2002 £'000
Interest Receivable	539	623

5 Government Grant in Aid

	2003 £'000	2002 Restated £'000
Baseline Grant received from the Department for Culture, Media and Sport	115,914	109,947
Specific Grants received from the Department for Culture, Media and Sport	473	450
Total Grant received from the Department for Culture, Media and Sport	116,387	110,397
Transfer of Grant to RCHME	–	(123)
Total Grant receivable from the Department for Culture, Media and Sport	116,387	110,274
Net transfer (to)/ from Deferred Government Grant in Aid (note 30)	(123)	600
Net transfer to the Government Grant Reserve (note 32)	(1,108)	(2,960)
Total Government Grant in Aid	115,156	107,914

The net transfer to the Government Grant Reserve comprises a transfer in respect of Government Grant in Aid funded fixed asset purchases, net of amounts transferred to Government Grant in Aid in respect of disposals and net of amounts transferred to Government Grant in Aid in respect of the annual depreciation charge on Government Grant in Aid funded fixed assets.

Notes to the Financial Statements (continued)

6 Conservation Expenditure

	2003	2002 Restated £'000
	£'000	£'000
Grants Paid		
Buildings and Monuments	9,373	9,164
Conservation Areas	6,860	5,403
Cathedrals	2,126	2,553
Other Places of Worship	7,399	9,342
Archaeology	5,362	5,121
Aggregates Levy Historic Environment	5,152	–
Other	2,851	2,143
Total Grants Paid	39,123	33,726
Major Rescue Projects	1,819	455
Listing, Scheduling and Surveys	9,300	8,533
Archaeology	6,505	6,294
Regional Conservation and Administration of Grants	10,651	11,004
Central Conservation Policy and Advisory Work	5,313	5,226
Total Conservation Expenditure	72,711	65,238

7 Managing Our Historic Properties Expenditure

	2003	2002 Restated £'000
	£'000	£'000
Visitor Services	28,847	23,682
Property Management	14,253	13,576
Development and Preservation Projects	12,380	14,605
Total Managing our Historic Properties Expenditure	55,480	51,863

8 Education and Outreach Expenditure

	2003	2002 Restated £'000
	£'000	£'000
Public Affairs and Communications	2,581	2,228
Membership Services	3,485	2,844
Education and Publications	2,732	2,491
National Monuments Record	4,265	3,933
Total Education and Outreach Expenditure	13,063	11,496

9 Corporate Services Expenditure

	2003	2002 Restated £'000
	£'000	£'000
Finance	2,626	2,671
Information Systems	4,407	3,505
Legal and Secretariat	1,955	2,117
Human Resources	2,060	2,073
Total Corporate Services Expenditure	11,048	10,366

Notes to the Financial Statements (continued)

10 Restructuring and Modernisation Costs

Total restructuring costs charged to the Income and Expenditure Account for the year were £1,509,000 (2002 restated: £805,000). There was no expenditure charged to Fixed Assets during the year (2002 restated: £616,000).

Restructuring costs incurred during the year ended 31 March 2003 substantially relate to the extension and refurbishment of a regional office necessitated by integration of the Conservation and Historic Properties Departments and the transfer of functions from the RCHME. These costs will be substantially offset by income generated by the disposal of a property rendered surplus by the restructuring.

Total modernisation costs charged to the Income and Expenditure Account for the year were £3,982,000 (2002: nil). These costs mainly relate to redundancy and severance payments to staff leaving English Heritage as a result of the Modernisation Programme. Expenditure charged to Fixed Assets during the year totalled £12,000 (2002: nil).

The modernisation costs incurred during the year ended 31 March 2003 relate to a programme of initiatives formulated by the new Chief Executive and announced in June 2002.

11 Taxation

HBMCE enjoys the status of a charity for taxation purposes. No taxation liability is expected on its operations for the year ended 31 March 2003 (2002: nil). English Heritage Trading Limited transferred all its profits for the year ended 31 March 2003 to HBMCE under the Gift Aid rules. Hence, it suffered no taxation charge as it had no taxable profits.

12 Auditor's Fees

	2003 £'000	2002 £'000
Auditor's Remuneration and Expenses:		
Statutory Audit Work	53	51
Whole of Government Accounts Audit Work	14	17
Other Audit Work	2	3
Total Auditor's Fees	69	71

The cost of statutory audit work for HBMCE was £47,000 (2002: £47,000).

Notes to the Financial Statements (continued)

13 Commissioners

Commissioners' emoluments totalled £152,000 (2002: £148,000) and wholly related to basic fees in respect of their duties as Commissioners and as members of Advisory Committees and Panels. No Commissioner received any performance related fees. The emoluments of the Chairman Sir Neil Cossons, the highest paid Commissioner, were £63,000 (2002: £60,000) and related wholly to basic fees. His annual accrued pension for his 3 years service with English Heritage as at 31 March 2003 totalled £2,000 (2002: £1,000).

	2003	2002
	£'000	£'000
The emoluments of the other Commissioners were as follows:		
Ms Amanda Arrowsmith (term of appointment ended 30 September 2001)	–	5
Mr Michael Cairns	4	4
Professor David Cannadine (appointed 1 October 2001)	5	2
Mrs Bridget Cherry (term of appointment ended 30 September 2001)	–	2
Councillor Philip Davis (term of appointment ended 17 January 2002)	–	4
Mrs Gilly Drummond (appointed 1 April 2002)	5	–
Mr Andrew Fane (Deputy Chairman from 9 June 2001)	20	20
Professor Eric Fernie (term of appointment ended 8 June 2001)	–	2
Lady Gass (term of appointment ended 8 June 2001)	–	1
HRH The Duke of Gloucester (term of appointment ended 30 September 2001)	–	1
Mr Piers Gough	5	5
Mr Michael Jolly (appointed 1 October 2002)	2	–
Mrs Candida Lycett Green (term of appointment ended 8 June 2001)	–	1
Ms Jane Grenville (appointed 14 May 2001)	5	3
Mr Loyd Grossman	12	12
The Earl of Leicester (appointed 21 January 2002)	5	1
Miss Kirsty McLeod (term of appointment ended 8 July 2001)	–	3
Mr Richard Morris	11	14
Mr Les Sparks (appointed 14 May 2001)	10	3
Miss Sue Underwood	5	5

The emoluments shown above for Ms Jane Grenville are paid to the University of York and the emoluments for Miss Sue Underwood are paid to North East Museums Libraries and Archives Council, who are their employers, in lieu of their working time spent on English Heritage business.

Sir Neil Cossons' contract term began on 1 April 2000 and is fixed for a term of 5 years. Professor David Cannadine, The Earl of Leicester, Mrs Gilly Drummond and Mr Michael Jolly have been appointed for fixed terms of 4 years. All other Commissioners have been appointed for fixed terms of 3 years. Except for the Chairman, the appointments are non pensionable. Commissioner's emoluments are set by the Department for Culture, Media and Sport.

14 Advisory Committee and Panel Members

English Heritage has a number of Advisory Committees and Panels which report directly to Commission. Advisory Committee and Panel Members who were not Commissioners received no emoluments during the year (2002: nil).

Notes to the Financial Statements (continued)

15 Related Party Transactions and Connected Bodies

English Heritage is sponsored by the Department for Culture, Media and Sport (DCMS) which is regarded as a related party. The only material transactions with the DCMS were in respect of the receipt of Grant in Aid (note 5) and the payment of £863,000 in lieu of rent. In addition, English Heritage provided staff on secondment to the DCMS and provided financial services for the DCMS in respect of the Regional Cultural Consortia.

There were also material transactions with the following entities for which the DCMS is regarded as the parent Department:

Arts Council of England	Heritage Lottery Fund
British Library	National Museums and Galleries on Merseyside
British Museum	New Opportunities Fund
British Tourist Authority	RCHME
Construction Industry Training Board	Royal Parks Agency

During the year English Heritage had material transactions with the following Government Departments and Central Government Bodies:

Cabinet Office	Government Actuary's Department
Countryside Agency	Government Office for the East of England
Department for the Environment, Food and Rural Affairs	Government Office for the South East
Department of Trade and Industry	House of Commons
East of England Development Agency	Office of Government Commerce
English Nature	South West of England Regional Development Agency
English Partnerships	Valuation Office Agency
Environment Agency	

During the year English Heritage had the following material transactions in which there was a related interest:

- Mr Andrew Fane, the Deputy Chairman, is a member of the Executive Committee of the National Trust. English Heritage had numerous transactions with the National Trust during the year including: the payment of the annual National Trust maintenance deficit grant of £1,065,000, other conservation grant payments of £908,000 and various other payments totalling £94,000, net of income received.
- Ms Jane Grenville, a Commissioner, is the Head of the Archaeology Department at the University of York, which received archaeology grant payments of £75,000 and payments for archaeological services of £186,000.
- The Earl of Leicester, a Commissioner, is a major shareholder in Coke Estates Limited, a company which received conservation grant payments totalling £28,000 in respect of a building in the company's ownership.
- Mr Richard Morris, a Commissioner, is the Chairman and Director of the Trustees of Jarrow 700 AD Limited, trading as Bede's World, which is an educational charity operating as a museum that has a Local Management Agreement with English Heritage. Payments under this Management Agreement during the year totalled £14,000. In addition Bede's World received conservation grant payments totalling £36,000.
- Mr Les Sparks, a Commissioner, is a Commissioner with the Commission for Architecture and the Built Environment which received a payment of £10,000 in respect of a regeneration project.

No other Commissioners, key managerial staff or other related party has undertaken any material transactions with English Heritage during the year.

The Iveagh Bequest is a body connected with English Heritage. The Commissioners of English Heritage are also the Trustees of the Iveagh Bequest. All income earned by the Iveagh Bequest is transferred to English Heritage for the benefit of Kenwood House. During the year £18,000 (2002: £18,000) was transferred.

Notes to the Financial Statements (continued)

16 Employees

The disclosures below include the numbers and costs related to ex RCHME staff who were permanently seconded to English Heritage from 1 April 2002 until 30 November 2002 after which they became English Heritage employees.

a) Employee Numbers	2003	2002 Restated
The average number of persons employed during the year expressed as full-time equivalents was:		
Conservation	596	608
Managing our Historic Properties	833	777
Education and Outreach	214	190
Corporate Services	200	207
Total Average Employee Numbers	<u>1,843</u>	<u>1,782</u>

Employee numbers include 43 agency staff. The 2002 comparative figures have been restated to include 42 agency staff.

b) Employee Costs	2003	2002 Restated
	£'000	£'000
Salaries and Wages	41,390	38,958
Social Security Costs	2,881	2,869
Pension Costs	4,875	3,843
Redundancy and Severance Costs	3,429	625
Agency Staff Costs	954	923
Total Employee Costs	<u>53,529</u>	<u>47,218</u>

The 2002 comparative figures for employee costs have been restated to include redundancy and severance costs and agency staff costs.

	Age in years at 31 March 2003	Emoluments		Total Annual Pension at 60 accrued from English Heritage service at 31 March	
		2003 £'000	2002 £'000	2003 £'000	2002 £'000
Simon Thurley Chief Executive	40	113	–	–	–
Michael Brainsby Director of Corporate Services (to 30 September 2002)	60	43	84	5	4
Michael Crich Director of Resources (from 1 August 2002)	46	63	–	–	–
Edward Impey Director of Research and Standards (from 1 November 2002)	40	29	–	–	–
Deborah Lamb Director of Policy and Communications (from 7 October 2002)	40	36	–	1	–
Oliver Pearcey Director of Conservation (to 30 September 2002)	51	36	70	16	15
Mark Pemberton Business Director (to 30 September 2002) Director of Properties and Outreach (from 1 October 2002)	50	92	86	2	1
Carole Souter Director of Regional Operations (to 30 September 2002) Director of Planning and Development (from 1 October 2002 to 31 March 2003)	45	96	93	3	2

Notes to the Financial Statements (continued)

16 Employees (continued)

c) Emoluments of Senior Employees (continued)

'Emoluments' includes gross salary, performance pay, bonuses and market pay supplement. Performance pay is calculated according to performance as measured by the appraisal process. This includes bonus payments for those on fixed term annual contracts.

The new Chief Executive commenced employment on 2 April 2002 and was the highest paid employee. His total emoluments for the year of £113,000 comprise basic salary of £103,000 and a performance related bonus of £10,000. The previous Chief Executive was in post until 7 September 2001 and the Director of Regional Operations was Acting Chief Executive from 7 September 2001 until 31 March 2002. Their combined emoluments as Chief Executive totalled £108,000 and comprise basic salaries of £95,000 and performance related bonuses of £13,000.

The Executive Board was reconstituted on 1 October 2002, the former Director of Corporate Services retired on 24 December 2002 and the Director of Conservation became the Designation Director, a non Executive Board position. Their emoluments shown above relate to their service as Executive Board members.

The Director of Properties and Outreach is engaged on a fixed term employment contract with a performance related bonus. The former Director of Planning and Development and the former Director of Corporate Services were also engaged on fixed term employment contracts with performance related bonuses. The remaining employees shown above, including the former Director of Conservation, are on continuous contracts.

From 30 September 2002 pension benefits to English Heritage staff are provided through the PCSPS. The value of the pension at 60 shown above comprises only the annual pension payable accruing from current English Heritage service. It does not include any benefits payable as a result of amounts transferred into the pension scheme from other employments, nor does it include any lump sums that will be payable on retirement. The total annual pension is calculated as either one-sixtieth or one-eightieth of pensionable pay for every year of service, depending on the pension option chosen by the employee.

The annual increase in pension is attributable to the additional year of service and any increase in pensionable pay. Employer's contributions into the PCSPS in respect of the above employees whilst they were Executive Board members totalled £48,000.

17 Pension Costs

English Heritage gained admission to the PCSPS on 30 September 2002. As this is an unfunded multi-employer defined benefit scheme, English Heritage is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2003. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For the year ended 31 March 2003, employer contributions were payable to the PCSPS at one of four rates in the range 12 to 18.5 per cent of pensionable pay, based on salary bands. Rates will remain the same next year, subject to revalorisation of the salary bands. Employer contributions are to be reviewed every four years following a full scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme. As a result of English Heritage's admission to the PCSPS on 30 September 2002, £4,232,000 was released from pensions creditors to the Income and Expenditure Account. This amount represented the accumulated net balance of transfer values in over transfer values out.

Prior to admission to the PCSPS English Heritage operated an unfunded pension scheme on a pay as you go basis, thus for English Heritage staff from 1 April 2002 to 30 September 2002, pension costs represent the net of pensions in payment, lump sum retirement payments and employee contributions and totalled £1,909,000.

RCHME staff on secondment to English Heritage until they were legally transferred on 1 December 2002 were already in the PCSPS, thus from 1 April 2002 to 30 September 2002 pension costs in respect of these staff represent employer contributions into PCSPS. From 1 October 2002 to 31 March 2003 pension costs represent employer contributions to the PCSPS in respect of all staff. Total employer contributions to the PCSPS were £2,966,000 (2002: £666,000).

Notes to the Financial Statements (continued)

17 Pension Costs (continued)

Employees joining English Heritage after 1 October 2002 could opt to open a partnership pension account: a stakeholder pension with an employer contribution. Employer contributions of £6,000 were paid to 3 of a panel of 4 appointed stakeholder pension providers. Employer contributions are age-related and range from 3 to 12.5 per cent of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay. In addition, employer contributions of £1,000 (2002: nil), 0.8 per cent of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

Contributions due to the partnership pension providers at the balance sheet date were £nil (2002: nil). Contributions prepaid at that date were £2,000 (2002: nil).

English Heritage operates a by analogy scheme to the PCSPS for the current and previous two chairmen. The scheme was set up during the year ended 31 March 2003; the scheme liability at 31 March 2003 was £140,000. This scheme has been valued by the Government Actuary's Department in accordance with Treasury guidelines and Financial Reporting Standard 17 principles.

18 Intangible Fixed Assets

English Heritage and HBMCE	Software Licences £'000
Cost or Valuation	
At 1 April 2002	199
Prior Year Adjustment – Asset reclassified from Tangible Fixed Assets (note 36)	124
Additions	116
Disposals	–
At 31 March 2003	<u>439</u>
Amortisation	
At 1 April 2002	89
Prior Year Adjustment – Asset reclassified from Tangible Fixed Assets (note 36)	124
Charge for the Year	80
Eliminated on Disposals	–
At 31 March 2003	<u>293</u>
Net Book Value	
At 31 March 2003	<u>146</u>
At 31 March 2002	<u>110</u>

Fully depreciated software licences with an original cost of £124,000 were reclassified from computer equipment to software licences during the year ended 31 March 2003.

Notes to the Financial Statements (continued)

19 Tangible Fixed Assets

	Land & Buildings £'000	Artefacts & Archives £'000	Plant & Vehicles £'000	Equipment & Fixtures £'000	Assets under Construction £'000	Total £'000
English Heritage and HBMCE						
Cost or Valuation						
At 1 April 2002 as previously reported	21,154	471	299	5,275	1,042	28,241
Reclassification	–	–	1,759	(1,883)	–	(124)
Prior Year Adjustment (note 36)	3,497	–	11	872	2,399	6,779
At 1 April 2002 (restated)	24,651	471	2,069	4,264	3,441	34,896
Revaluations	426	–	–	–	–	426
Additions	6	247	90	11	3,400	3,754
Disposals	(23)	–	(14)	(68)	–	(105)
Transfer of assets brought into use	1,409	732	54	2,221	(4,532)	(116)
At 31 March 2003	26,469	1,450	2,199	6,428	2,309	38,855
Depreciation						
At 1 April 2002 as previously reported	876	–	274	3,941	–	5,091
Reclassification	–	–	1,357	(1,481)	–	(124)
Prior Year Adjustment (note 36)	150	–	2	275	–	427
At 1 April 2002 (restated)	1,026	–	1,633	2,735	–	5,394
Charge for the Year	685	–	212	996	–	1,893
Backlog Depreciation	15	–	–	–	–	15
Eliminated on Disposals	(3)	–	(14)	(67)	–	(84)
At 31 March 2003	1,723	–	1,831	3,664	–	7,218
Net Book Value						
At 31 March 2003	24,746	1,450	368	2,764	2,309	31,637
At 31 March 2002 (restated)	23,625	471	436	1,529	3,441	29,502

The transfers from Assets under Construction to other fixed asset categories represent the transfer of Assets under Construction which have been completed in the year. These include software licences with a cost of £116,000 which had been included in Assets under Construction in the prior year that have been transferred to Intangible Fixed Assets (note 18).

Assets have been reclassified between categories in order to reflect the classifications used by Government for resource accounting purposes.

20 Pure Heritage Land and Buildings

English Heritage manages over 400 historic properties throughout England providing a diverse portfolio that includes World Heritage Sites, industrial monuments, castles, historic houses, abbeys, forts, stone circles and a large part of Hadrian's Wall. They range from prehistoric ruins to the lavishly furnished Osborne House. In age they range from Neolithic burial chambers dating from 3500-2600BC to 20th-century houses.

All of the land and buildings at these properties have been classified as either pure heritage (non-operational heritage), operational heritage or operational (non-heritage), (note 1i). Over 550 pure heritage assets have been identified and encompass the vast majority of what would be recognised as the main buildings at these properties.

These properties are held by English Heritage under various arrangements, with the majority being in the guardianship of the Secretary of State for Culture, Media and Sport with the freehold being retained by the owner. The remaining properties are either in the ownership of English Heritage, other government departments or the Crown Estate.

Notes to the Financial Statements (continued)

21 Historic Artefacts

English Heritage possesses in the region of 500,000 historic artefacts, ranging from environmental remains and archaeological artefacts to pottery, fine art and furnishings. They are an integral part of our historic properties. As well as being of significance in their own right, they assist in interpreting and presenting our properties to the public and they provide a valuable research resource for heritage professionals and our own staff.

These collections were formed by the past owners of historic houses and castles or by archaeologists excavating sites and by curators recovering former contents. They come from many sources: some were transferred from the Department of the Environment on 1 April 1984, some from the Greater London Council in 1986, some have been donated, some are the results of archaeological excavations on our properties and others have been purchased as part of our ongoing work to restore and enhance our properties.

Total expenditure of £646,000 was incurred on historic artefacts (including replicas) during the year ended 31 March 2003 (2002: £422,000). £607,000 of this expenditure was charged to Fixed Assets (2002: £311,000) and £39,000 was charged to the Income and Expenditure Account (2002: £111,000). The donated artefacts received during the year were valued at approximately £20,000 (2002: £5,000).

22 Archives

English Heritage's extensive archives comprise maps, plans, photographs and books. Our National Monuments Record Centre holds 10 million historical and modern photographs, texts and documents, and is the national record of England's heritage. Our archives are used by members of the public, professional researchers, other heritage organisations and our own staff.

We are continually adding to the stock of archives. During the year ended 31 March 2003 expenditure on archive production of £372,000 has been charged to Fixed Assets (2002: £160,000). This relates to Images of England, a project substantially financed by a Heritage Lottery Fund grant which will result in a photographic archive of all listed buildings in England as at 31 December 2000.

Expenditure on archive purchases charged to the Income and Expenditure Account during the year ended 31 March 2003 totalled £8,000 (2002: £7,000).

23 Fixed Asset Investments

HBMCE	Subsidiary Undertakings £'000	Other Investments £'000	Total £'000
At 1 April 2002 and 31 March 2003	2,028	–	2,028

Details of the subsidiary undertakings are given in note 41.

24 Stocks

	English Heritage		HBMCE	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Goods for Resale	2,619	2,772	619	571

25 Debtors

	English Heritage		HBMCE	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Trade Debtors	4,007	1,434	4,007	1,434
Value Added Tax	791	1,297	791	1,297
Prepayments and Accrued Income	2,834	3,268	2,834	3,265
Other Debtors	479	1,046	479	1,046
Amount Owed by Subsidiary Undertaking	–	–	1,591	1,914
Total Debtors	8,111	7,045	9,702	8,956

Notes to the Financial Statements (continued)

26 Financial Instruments

As English Heritage has a 3-year funding agreement with the Department for Culture, Media and Sport (DCMS), English Heritage is not exposed to the degree of financial risk normally faced by business entities. Financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which Financial Reporting Standard (FRS) 13 mainly applies. English Heritage has no powers to borrow and its only investments are of surplus funds on short term fixed interest rate deposit with institutions with low risk credit ratings.

As allowed by FRS13, debtors and creditors that are due to mature or become payable within 12 months from the Balance Sheet date have not been disclosed as financial instruments.

a) Liquidity Risk

Owing to the nature of its funding and pattern of expenditure, English Heritage does not have any significant liquidity risk.

b) Interest Rate Risk

English Heritage's long term financial liabilities relate solely to provisions (note 29) none of which are interest bearing and are mainly due within 1 year. The only disclosable financial assets are cash and short term investments which are not exposed to significant interest rate risk.

c) Currency Risk

All financial assets and liabilities are held in sterling.

d) Valuation

There is no material difference between the carrying values and fair values of financial assets and liabilities.

e) Financial Assets

The financial assets consist of cash (note 35) and short term investments held on fixed rate deposit:

	English Heritage		HBMCE	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Short Term Investments – Cash on Short Term Deposit	12,843	8,001	11,500	6,750

All of the above deposits mature within 1 month of the Balance Sheet date, interest rates on these deposits range between 3.625% and 3.75%.

27 Creditors: Amounts Falling Due Within One Year

	English Heritage		HBMCE	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Trade Creditors	11,995	9,224	11,990	9,219
Income Tax and Social Security	1,242	1,048	1,242	1,048
Pensions	9	4,602	9	4,602
Deferred Income	383	366	253	267
Deferred Government Grant in Aid (note 30)	133	10	133	10
Other Creditors and Accruals	1,927	1,009	1,927	1,009
Amount Owed to Subsidiary Undertaking	–	–	411	591
Total Creditors: Amounts Falling Due Within One Year	15,689	16,259	15,965	16,746

Notes to the Financial Statements (continued)

28 Creditors: Amounts Falling Due After More Than One Year

	English Heritage		HBMCE	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Pensions	131	–	131	–
Deferred Income	1,614	1,441	1,614	1,441
Other Creditors and Accruals	–	92	–	92
Total Creditors: Amounts Falling Due After More Than One Year	1,745	1,533	1,745	1,533

29 Provisions

	Balance at 1 April 2002 £'000	Released in the year £'000	Utilised in the year £'000	Charged in the year £'000	Balance at 31 March 2003 £'000
English Heritage and HBMCE					
Restructuring and Modernisation Costs (note 10)	580	(62)	(644)	3,488	3,362
Legal and Constructive Obligations	271	(88)	(44)	817	956
Claims	688	(154)	(234)	68	368
Other Staff related	–	–	–	256	256
Total Provisions	1,539	(304)	(922)	4,629	4,942

The Legal and Constructive Obligations and Claims provisions largely relate to property matters. The Other Staff related provisions are in respect of contractual issues.

30 Movement in Deferred Government Grant in Aid

English Heritage and HBMCE	£'000
Balance at 1 April 2002	10
Released in respect of the Stonehenge Road Scheme	(10)
Deferred in respect of the Images of England Project	133
Balance at 31 March 2003	133

31 Movement in Income and Expenditure Reserve

English Heritage and HBMCE	£'000
Balance at 1 April 2002	(8,286)
Deficit for the Year	(170)
Balance at 31 March 2003	(8,456)

Notes to the Financial Statements (continued)

32 Analysis of Capital Reserves

	Govt Grant Reserve £'000	EU Grant Reserve £'000	Non Govt Grant Reserve £'000	Donated Asset Reserve £'000	Restricted Fund Asset Reserve £'000	Total £'000
English Heritage and HBMCE						
Balance at 1 April 2002 (as previously reported)	20,805	–	668	1,787	–	23,260
Prior Year Adjustment (note 36)	3,165	1,044	(527)	2,096	574	6,352
Total as at 1 April 2002 (restated)	23,970	1,044	141	3,883	574	29,612
Movement in Year						
– Assets under Construction	(613)	53	–	1	(573)	(1,132)
– Fixed Asset Additions	3,202	–	10	983	691	4,886
– Fixed Asset Disposals	(105)	–	–	–	–	(105)
– Fixed Asset Depreciation	(1,384)	(33)	(4)	(400)	(83)	(1,904)
– Revaluation of Land and Buildings	363	16	2	45	–	426
Balance at 31 March 2003	25,433	1,080	149	4,512	609	31,783

33 Development and Restricted Funds

	Balance at 1 April 2002 £'000	Income £'000	Revenue Expenditure £'000	Capital Expenditure £'000	Balance at 31 March 2003 £'000
English Heritage and HBMCE					
Kenwood House	213	8	–	–	221
Down House and Gardens	1,038	40	(50)	–	1,028
Eltham Palace	1,476	749	(913)	–	1,312
Rangers House (Wernher Foundation)	431	525	(178)	(118)	660
London Squares	11	–	–	–	11
Total Restricted Funds	3,169	1,322	(1,141)	(118)	3,232
Development Fund	1,299	231	(43)	(85)	1,402
Total Funds	4,468	1,553	(1,184)	(203)	4,634

The total funds were held as pooled investments as follows:

	2003 £'000	2002 £'000
Cash and Short Term Investments	4,634	4,468

34 Reconciliation of Operating Deficit to Net Cash Inflow from Operating Activities

	2003 £'000	2002 Restated £'000
Operating Deficit before Investment Income	(1,785)	(1,834)
Depreciation and Amortisation	1,973	1,386
Notional Cost of Capital	1,242	1,098
Loss/(Profit) on disposal of Fixed Assets	5	(10)
Decrease/(Increase) in Stocks	153	(133)
(Increase)/Decrease in Debtors	(1,067)	104
Increase in Creditors and Provisions	2,970	537
Net Cash Inflow from Operating Activities	3,491	1,148

Notes to the Financial Statements (continued)

35 Analysis of Net Funds

	2003 £'000	2002 £'000	Change in year £'000
Cash at Bank and in Hand	236	567	(331)
Bank Overdrafts	<u>(5,255)</u>	<u>(2,872)</u>	<u>(2,383)</u>
Net Bank Overdraft	(5,019)	(2,305)	(2,714)
Short Term Investments	<u>12,843</u>	<u>8,001</u>	<u>4,842</u>
Net Funds	<u>7,824</u>	<u>5,696</u>	<u>2,128</u>

36 Prior Year Adjustment

The comparative figures for the year ended 31 March 2002 have been restated to fully comply with the revised NDPB Annual Reports and Accounts Guidance issued in July 2000. The restatement relates to the capitalisation of works to operational buildings, which were originally excluded from the 2001/02 accounts as permitted by a dispensation in the Accounts Direction. This required changes in the following area:

■ Tangible Fixed Assets - Land and Buildings

Prior to the change in accounting policy, expenditure on works to operational buildings was charged to the Income and Expenditure Account as it was incurred.

The impact of the changes in accounting policy on the comparative figures for the year ended 31 March 2002 is as follows:

	Net Assets £'000
As at 31 March 2002 (as previously reported)	<u>19,442</u>
Effect of change in policy in respect of capitalisation of works	
– Addition of Fixed Assets (notes 18 and 19)	6,779
– Depreciation of Fixed Assets (notes 18 and 19)	(427)
	<u>6,352</u>
As at 31 March 2002 (restated)	<u>25,794</u>

There is no effect on the deficit for the year ended 31 March 2002, as the decrease in income credited to the Income and Expenditure Account of £3,742,000 has been matched by a corresponding decrease in expenditure (notes 36 a, b and c).

The comparative figures for the year ended 31 March 2002 in all the main financial statements and in many of the notes to the accounts have been restated as a result of the above changes.

Income and Expenditure Account

a) Note 3: Other Operating Income

Grants Receivable

The net transfer to capital reserve has increased by £1,110,000 from £325,000 to £1,435,000. This is the result of the transfer to Capital Reserves of £1,311,000 relating to the capitalisation of works, less £201,000 released to grant income from the Capital Reserves in respect of the depreciation of lottery funded, EU funded and non government grant funded assets introduced as part of the prior year adjustment.

Other Operating Income

The net transfer from Capital Reserves of £30,000 as previously reported has been changed to a net transfer to Capital Reserves of £483,000. This is the result of the transfer to capital reserves of £513,000 relating to the capitalisation of works.

b) Note 5: Government Grant in Aid

Net transfer to the Government Grant Reserve

The transfer to the Government Grant Reserve is comprised as follows: £841,000 as previously reported, £2,264,000 transferred to the Capital Reserve relating to works capitalised in the year funded by Government Grant In Aid, less £145,000 released in respect of the depreciation thereon.

Notes to the Financial Statements (continued)

36 Prior Year Adjustment (continued)

c) Note 6: Conservation Expenditure; Note 7: Managing our Historic Properties Expenditure; Note 8: Education and Outreach Expenditure; Note 9: Corporate Services Expenditure

With the exception of Conservation Grants paid, all expenditure categories have been affected by the prior year adjustment. Excluding the Notional Cost of Capital, total expenditure for 2001/02 has decreased from £143,510,000 to £139,768,000. The net decrease of £3,742,000 relates to the capitalisation of works expenditure of £4,088,000 net of additional depreciation of £346,000 in respect of capitalised works completed in the year.

d) Notional Cost of Capital

The change in net assets introduced by the prior year adjustment has meant that the Notional Cost of Capital has been recalculated from £1,000,000 as previously reported to £1,098,000. This has been recalculated in respect of fixed assets in accordance with note 1g) which reflects a change in the NDPB Annual Report and Accounts Guidance.

e) Statement of Total Recognised Gains and Losses

The unrealised surplus on the revaluation of Tangible Fixed Assets of £461,000 consists of £447,000 as previously reported, plus £14,000 relating to the indexation revaluation of land and buildings capitalised as a result of the capitalisation of works.

The total prior period adjustments of £6,352,000 recorded in the Statement of Total Recognised Gains and Losses relates to the effect of changes in Tangible Fixed Assets as detailed in note 19.

Balance Sheet

f) Tangible Fixed Assets

Equipment and fixtures with a cost of £1,759,000 and accumulated depreciation of £1,357,000 have been reclassified as Plant and Vehicles in order to comply with whole of Government Accounts guidelines. Fully depreciated software licences with an original cost of £124,000 have also been transferred to Intangible Fixed Assets (notes 18 and 19).

g) Note 32: Analysis of Capital Reserves

The total prior year adjustment impact on net assets of £6,352,000 as reported above has been reflected in the Capital Reserves, analysed by the original method of financing of the assets. £447,000 of Non Government Grant Reserves have also been reanalysed as EU Grant Reserves in the prior year adjustment as the EU Grant Reserve was not separately disclosed last year. £176,000 has also been reclassified as Donated Asset Reserve from Non Government Grant Reserve.

Cash Flow Statement

h) Note 34: Reconciliation of Operating Deficit to Net Cash Inflow from Operating Activities

The increase in the net cash outflow from operating activities from £802,000 to £1,148,000 reflects the following changes:

Operating Deficit Before Investment Income

The Operating Deficit before Investment Income has increased from £1,736,000, as previously reported, to £1,834,000 as a result of the increase in the Notional Cost of Capital charge of £98,000 (note 36 d).

Depreciation and Amortisation

The Depreciation and Amortisation total has increased from £1,040,000 as previously reported to £1,386,000. This increase of £346,000 relates to the additional depreciation in respect of capitalised works.

Notional Cost of Capital

The Notional Cost of Capital has increased from £1,000,000 to £1,098,000.

i) Payments to Acquire Fixed Assets

Payments to acquire Fixed Assets have increased from £2,219,000 as previously reported to £6,307,000 as a result of the capitalisation of works expenditure of £4,088,000.

j) Grants Received Credited to the Capital Reserves

Grants received credited to the Capital Reserves have increased from £1,136,000 as previously reported to £4,878,000. This is as a result of the capitalisation of £4,088,000 of works expenditure, net of the £346,000 released to Income and Expenditure Account in respect of the depreciation of capitalised works introduced as part of the prior year adjustment (note 19).

Notes to the Financial Statements (continued)

37 Commitments

a) Grant Offers made to Other Bodies and Individuals	£'000
Balance outstanding at 1 April 2002	69,304
Grants paid during the year	(39,123)
New Grant offers made during the year net of lapsed offers	45,902
Commitment outstanding at 31 March 2003	<u>76,083</u>

In addition to the commitment shown above, English Heritage has an ongoing annual grant liability to the National Trust. The commitment for the year ending 31 March 2004 is £1,092,000 and increases annually by an agreed inflation factor.

b) Contracts

Expenditure contracted for as at 31 March 2003 but not provided for in the financial statements amounted to £27,033,000 (2002: £33,138,000).

c) Operating Leases

	2003 £'000	2002 £'000
Operating lease commitments falling due during the next year analysed between the following ranges in which the commitment expires:		
Within one year	119	158
Between one and five years	383	179
After five years	3,021	3,258
Total Operating Lease Commitments	<u>3,523</u>	<u>3,595</u>

The majority of leases relate to property rentals and are subject to rent reviews. During the year ended 31 March 2003 payments under operating leases totalled £3,737,000 (2002: £3,808,000).

38 Losses and Special Payments

	2003 £'000	2002 £'000
Losses	61	99
Special Payments	95	182
Total Losses and Special Payments	<u>156</u>	<u>281</u>

There were no special payments or losses during the year ended 31 March 2003 which exceeded £100,000 (2002: none).

39 Legal Claims

Various outstanding claims existed at 31 March 2003. Provision has been made in the accounts for the year ended 31 March 2003 for those outstanding liabilities which will probably require settlement by English Heritage and where the amount of the liability can be reliably estimated (note 29). Due to their nature it is not possible to quantify the exact liability outstanding relating to the remaining claims, where settlement by English Heritage may be required, but it has been estimated that the total liability will not exceed £250,000.

40 Landfill Tax Credit Scheme

English Heritage is registered as an Environmental Body with 'Entrust', the regulator of environmental bodies under the landfill tax regulations. During the year ended 31 March 2003 there are no projects in progress that were grant funded by landfill tax credits (2002: 1).

	2003 £'000	2002 £'000
Grant Income	-	11
Project Expenditure	-	7

The figures quoted above are on an accruals basis. On a cash basis, the grant income in the year ended 31 March 2002 was £63,000 and the expenditure was £7,000. The excess of expenditure over income was met from English Heritage's own resources.

Notes to the Financial Statements (continued)

41 Subsidiary Undertakings

a) English Heritage Trading Limited

HBMCE is the sole shareholder of English Heritage Trading Limited, incorporated in 1994. On 1 April 1998, the trading activities and trading stock of HBMCE were transferred to English Heritage Trading Limited in exchange for ordinary shares in the company. English Heritage Trading Limited commenced trading on 1 April 1998.

The following results of English Heritage Trading Limited have been included in the consolidated results:

Income and Expenditure	2003	2002
	£'000	£'000
Turnover	7,897	7,825
Expenditure	(6,893)	(6,875)
Operating Profit	1,004	950
Interest Receivable and Similar Income	53	68
Profit on Ordinary Activities before Gift Aid	1,057	1,018
Gift Aid to HBMCE	(1,057)	(1,018)
Profit on Ordinary Activities before and after Taxation	–	–
Net Assets as at 31 March	2003	2002
	£'000	£'000
Current Assets	3,755	4,047
Creditors: Amounts Falling Due Within One Year	(1,727)	(2,019)
Net Assets	2,028	2,028
Share Capital – Ordinary Shares at £1 each	2,028	2,028
Profit and Loss Account	–	–
Shareholders' Funds	2,028	2,028

b) English Heritage Limited

HBMCE is the sole guarantor of English Heritage Limited, a company limited by guarantee incorporated in 1984. English Heritage Limited was dormant throughout the year.

42 Key Financial Targets

There were no key targets set for 2002/03 within English Heritage's Funding Agreement which relate to the financial performance of English Heritage as a whole. The performance against Funding Agreement targets is shown in the Annual Report.

Five Year Financial Summary

	Restated 1999 £'000	Restated 2000 £'000	Restated 2001 £'000	Restated 2002 £'000	2003 £'000
Non Grant in Aid Income	28,255	29,817	30,610	31,741	38,401
% Increase/(Decrease)	9.6%	5.5%	2.7%	3.7%	21.0%
Government Grant in Aid	104,111	112,556	115,238	107,914	115,156
	-1.3%	8.1%	2.4%	-6.4%	6.7%
Grants Paid	35,504	35,053	34,239	33,726	39,123
	-2.7%	-1.3%	-2.3%	-1.5%	16.0%
Salaries and Wages	30,341	38,630	40,898	41,827	44,271
	6.6%	27.3%	5.9%	2.3%	5.8%
Tangible Fixed Asset Additions	813	702	4,305	6,660	3,754
	21.9%	-13.7%	513.2%	54.7%	-43.6%
Total Income	132,366	142,373	145,848	139,655	153,557
	0.9%	7.6%	2.4%	-4.2%	10.0%
Total Expenditure	131,504	149,764	144,015	138,963	152,302
	2.3%	13.9%	-3.8%	-3.5%	9.6%
Income and Expenditure Account Surplus/(Deficit)	1,571	(7,122)	1,393	(1,112)	(170)
Net Assets/(Liabilities)	3,869	(3,463)	17,568	25,794	27,961

The Salaries and Wages amounts include Social Security costs.

Total Expenditure excludes Notional Cost of Capital and exceptional items.

The comparative figures for 2002 have been restated to take into account the impact of the capitalisation of works to operational buildings in the year ended 31 March 2002.

The figures prior to 2002 have not been restated to reflect the impact of these changes. However, as reported in the accounts for the year ended 31 March 2000, all figures prior to 2000 have been restated to take account of the impact of the changes effected in that year in respect of Life Membership Income and Historic Artefacts and Archives.

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English Heritage is very grateful to all the benefactors who made donations, grants and bequests or sponsored its activities during the year ended 31 March 2003. The following have given amounts of £1,000 or more:

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 Transport for London
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 The Wernher Foundation
 Westminster Abbey
 Westminster City Council
 Westminster School

In addition to the donors, sponsors, legators and contributors listed above, during the year ended 31 March 2003 we also received pledges of future support from many other organisations and individuals and we look forward to acknowledging them all in our Annual Report and Accounts in future years.

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