



# Heritage Lottery Fund

National Heritage Memorial Fund Lottery Distribution  
Annual Report and Accounts for the year ended 31 March 2013





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# Report of the Trustees and Accounting Officer

## Management commentary

### Background information

The National Heritage Memorial Fund (NHMF or 'the Fund') is vested in and administered by a body corporate known as the Trustees of the National Heritage Memorial Fund. This consists of a Chair and not more than 14 other members appointed by the Prime Minister. The Fund was set up on 1 April 1980 by the National Heritage Act 1980 ('the 1980 Act') in succession to the National Land Fund as a memorial to those who have given their lives for the United Kingdom. It receives an annual grant-in-aid from the government to allow it to make grants. The powers of the Trustees and their responsibilities were extended by the provisions of the National Lottery etc. Act 1993 ('the 1993 Act'), the National Heritage Act 1997 ('the 1997 Act') and the National Lottery Act 1998 ('the 1998 Act').

Under the 1993 Act, NHMF became responsible for the distribution of that proportion of National Lottery proceeds allocated to the heritage. NHMF has to prepare separate accounts for the receipt and allocation of grant-in-aid and for its operation as a distributor of National Lottery money. Trustees have chosen to refer to the funds as NHMF for sums allocated under the provisions of the 1980 Act and the Heritage Lottery Fund (HLF) for receipts under the provisions of the 1993 Act.

Under section 21(1) of the 1993 Act a fund known as the National Lottery Distribution Fund (NLDF) is maintained under the control and management of the Secretary of State for Culture, Media and Sport. All sums received from the licensee of the National Lottery under section 5(6) are paid to the Secretary of State and placed by her in the NLDF. NHMF applies to the NLDF for funds to meet its liabilities for Lottery grant payments and administration expenses.

Under section 22 of the 1993 Act, the Secretary of State for Culture, Media and Sport shall allocate 20% of the sum paid into the NLDF for expenditure on, or

connected with, the national heritage. Section 23(3) establishes the Trustees of NHMF as distributors of that portion. The percentage allocation was reduced to 16⅔% in October 1997 following the government's creation of the New Opportunities Fund. It reverted to 20% from 1 April 2012, having been 18% for the whole of 2011–12.

These accounts have been prepared in a form directed by the Secretary of State for Culture, Media and Sport with the consent of HM Treasury in accordance with section 35(3) of the 1993 Act.

### Principal activities

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

- a) any land, building or structure which in the opinion of the Trustees is of outstanding scenic, historic, aesthetic, archaeological, architectural or scientific interest;
- b) any object which in their opinion is of outstanding historic, artistic or scientific interest;
- c) any collection or group of objects, being a collection or group which, taken as a whole, is in their opinion of outstanding historic, artistic or scientific interest.

Section 4 of the 1980 Act (as amended) extends the powers of Trustees to improving the display of items of outstanding interest to the national heritage by providing financial assistance to construct, convert or improve any building in order to provide facilities designed to promote the public's enjoyment or advance the public's knowledge.

Under the 1997 Act, Trustees are now also able to assist projects directed to increasing public understanding and enjoyment of the heritage and to interpreting and recording important aspects of the nation's history, natural history and landscape. Following consultation with potential applicants, advisers and other bodies, further new

initiatives – dealing with revenue grants (to widen access in general to the heritage), as well as in the fields of archaeology, townscapes, information technology, and education – were set up. The 1998 Act gave Trustees the power to delegate Lottery grant decisions to staff and also to committees containing some members who are not Trustees.

### Aims

Trustees have three core aims for their Lottery distribution activities, which define in broad terms how they are trying to improve the quality of life through the heritage. Those core aims are:

- conserve the UK's diverse heritage for present and future generations to experience and enjoy;
- help more people, and a wider range of people, to take an active part in and make decisions about their heritage;
- help people to learn about their own and other people's heritage.

As an organisation we strive to achieve economy, efficiency and effectiveness in all that we do. In addition, clarity, prioritisation, judgement, responsible authority and accountability are core principles for us. These inform our approach to funding, and how we work with customers and colleagues. We aim to be recognisable wherever we work through consistent practice and presentation while retaining the flexibility to respond to differences and needs through our local teams across the UK.

### Financial instruments

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

to borrow and can only invest grant-in-aid-derived funds. Financial assets and liabilities are generated by day-to-day operational activities rather than being held to change the risks facing the organisation.

### *Liquidity risk*

In 2012–13, £367million (99%) of NHMF's net Lottery distribution income after deduction of our contribution to the Olympic Lottery Distribution Fund, derived from the National Lottery. The remaining income derived from investment returns from the balance held with the NLDF, £2million (1%), along with a small amount of bank interest and sundry income. The Trustees recognise that their hard commitments (ie those awards where a grant contract is in place) and their other payables exceeded the value of funds in the NLDF at 31 March 2013. However, Trustees consider that their Lottery distribution activities are not exposed to significant liquidity risks as they are satisfied that they will have sufficient liquid resources within the NLDF and the bank to cover all likely grant payment requests in the coming years. Trustees have been informed by the Department for Culture, Media and Sport (DCMS) that it has no plans to change the Lottery distribution arrangements for the heritage sector. Indeed, DCMS increased the heritage share of National Lottery good causes' money to 20% from April 2012. Trustees have set a long-term grant-award strategy to ensure that their Lottery distribution liabilities are in line with assets, and that Trustees are able to meet their commitments to 2023, when the fourth Lottery operating licence expires. Thus, even if there were a long-term decline in Lottery income, Trustees would be able to adjust annual grant budgets to compensate.

### *Market and interest rate risk*

The financial assets of the Trustees' Lottery distribution activities are invested in the NLDF, which invests in a narrow band of low-risk assets such as government bonds and cash. The Trustees have no control over the investment of these funds. For these

two reasons, we have not carried out sensitivity analysis on market risks. At the date of the Statement of Financial Position, the market value of our investments in the NLDF was £475million. We are informed by DCMS that funds at the NLDF earned on average 0.78% in the year. Cash balances, which are drawn down from the NLDF to pay grant commitments and operating costs, are held in instant-access variable rate bank accounts, which carried an interest rate of 0.35% in the year. The sharp decline in market interest rates in 2008 has had a significant impact on investment returns, but, as there is little room for rates to fall further, the risk is small. The cash balance at the year end was £10million. The Trustees consider that their Lottery distribution activities are not exposed to significant interest rate risks. Other financial assets and financial liabilities carried nil rates of interest.

	2012-13 £'000	2011-12 £'000
Cash balances		
- sterling at floating interest rates	9,912	2,960
- sterling at a mixture of fixed rates	475,331	375,270
	<b>485,243</b>	378,230

#### Credit risk

The figure for receivables comprises prepayments (mostly on property leases) and intra-government balances. The intra-government balances are mostly with DCMS or bodies that it sponsors and all had been repaid by the time of signing the accounts. Trustees do not consider that their Lottery distribution activities are exposed to significant credit risk.

#### Foreign currency risk

The Trustees' Lottery distribution activities are not exposed to any foreign exchange risks.

#### Financial assets by category

	2012-13 £'000	2011-12 £'000
Assets per the Statement of Financial Position		
- investments available for sale	475,331	375,270
- cash and cash equivalents	9,912	2,960
- loans and receivables	4,303	9,557
	<b>489,546</b>	387,787

#### Financial liabilities by category

	2012-13 £'000	2011-12 £'000
Liabilities per the Statement of Financial Position		
- provision	0	0
- other financial liabilities		
• grant commitments	740,217	625,940
• operating payables	604	370
• other payables	364	323
• accruals	1,670	1,663
	<b>742,855</b>	628,296

#### Fair values

Set out below is a comparison, by category, of book values and fair values of HLF's financial assets and liabilities as at 31 March 2013.

Financial assets at 31 March 2013		
	Book value £'000	Fair value £'000
Cash <sup>1</sup>	9,912	9,912
Investments <sup>2</sup>	475,331	475,331
Receivables <sup>3</sup>	4,303	4,303
	<b>489,546</b>	<b>489,546</b>

Financial assets at 31 March 2012		
	Book value £'000	Fair value £'000
Cash	2,960	2,960
Investments	371,884	375,270
Receivables	9,557	9,557
	384,401	387,787

Financial liabilities at 31 March 2013		
	Book value £'000	Fair value £'000
Grant commitments <sup>4</sup>	740,217	740,192
Operating payables <sup>5</sup>	604	604
Other payables <sup>5</sup>	364	364
Accruals <sup>5</sup>	1,670	1,670
	<b>742,855</b>	<b>742,830</b>

## Financial liabilities at 31 March 2012

	Book value £'000	Fair value £'000
Grant commitments	625,940	625,940
Operating payables	370	370
Other payables	323	323
Accruals	1,663	1,663
Provision	0	0
	<b>628,296</b>	<b>628,296</b>

### Basis of fair valuation

- 1 The figure here is the value of deposits with commercial banks. It is expected that book value equals fair value.
- 2 Investments are controlled by the Secretary of State for Culture, Media and Sport. She provides the Trustees with details of the book value and fair value of our balances at the date of the Statement of Financial Position.
- 3 No provision for bad debt is deemed necessary. None of the debts is long term and no interest rate has been applied to the loan.
- 4 Whilst we disclose £444million of grant commitments as not being due for payment until after one year, we have not made a fair value adjustment. Trustees have a contractual obligation to pay these amounts on demand, subject to contract, and so the amounts could be paid within the next 12 months.
- 5 All payables are due within normal contractual terms, usually 14–30 days, and so no difference exists between book value and fair value.

### Maturity of financial liabilities

	2012–13 £'000	2011–12 £'000
In less than one year	<b>742,855</b>	628,296
In more than one year, but less than two	<b>0</b>	0
In two to five years	<b>0</b>	0
In more than five years	<b>0</b>	0
	<b>742,855</b>	<b>628,296</b>

The Statement of Financial Position discloses the above figure separated between amounts due in one year and amounts due in more than one year. That split is based purely upon our past experience of amounts drawn down by grantees because our contracts with grantees contain no such split. Theoretically, grantees could demand their entire grant within the next 12 months if their projects were completed in that period. Hence, we have adopted a prudent approach and shown the maturity of liabilities to be all within one year.

### Future developments

Projections provided by DCMS of likely income from the National Lottery suggest that returns will continue at their current high level and we expect to receive around £373million in 2013–14. In addition, there is the possibility that there may be a small

return of some of the funds that were taken from us to fund the Olympics. Trustees have therefore increased their budget for grant awards from £375million to £402.5million in 2013–14. In the longer term, the award budget is expected to return to a level of £375million, but obviously Trustees will monitor income closely over the next 12 months and revise future budgets as appropriate.

Our new strategic framework has come into operation with the first decisions to be made under its auspices in April 2013. The framework sets out our ambitions to 2018 and was the result of consultations with stakeholders over the past couple of years. There are a large number of changes in the way we do business.

There are a number of new and revised grant programmes have been created such as that to give grants to help understand the impact of the First World War which has its centenary in 2014. Other new programmes include Sharing Heritage, which gives grants of up to £10,000 for any not-for-profit group wanting to explore and celebrate their community's heritage such as through events, exhibitions and festivals or producing local history publications. The Our Heritage programme takes the place of the Your Heritage programme and supports all types of heritage projects. We have increased the maximum grant available through a single-round application process to £100,000. This is to respond to demand for support for small and medium-sized capital projects. The Heritage Enterprise programme will support the repair, adaptation and refurbishment of historic buildings and industrial sites for an end-use that actively contributes to sustainable development in areas experiencing economic disadvantage.

We have also revived our Skills for the Future programme and expanded our Catalyst programme. Skills for the Future supports work-based training in skills that are needed to look after buildings, landscapes, habitats, species, and museum and archive collections, as well as equipping people to

lead education and outreach programmes, manage volunteers and use new technology. Catalyst is a heritage and arts sector-wide programme to help cultural organisations diversify their income streams and access more funding from private sources. The programme offers organisations the opportunity to move their fundraising and development expertise onto the next level.

We are also bringing in-house the grant programme Repair Grants for Places of Worship in England, whilst re-branding it Grants for Places of Worship. The administration of the programme has been previously carried out by English Heritage, who will continue to administer awards made in previous years.

Under the framework we have changed the emphasis of what we look for in a successful grant-aided project. We now have an outcomes approach. In assessing projects we will take account of the broad range of benefits that projects may deliver, and will give extra weight to the outcomes that we value most, such as learning. Our aim is as follows:

#### *Outcomes for heritage*

With our investment, heritage will be:

- better managed
- in better condition
- better interpreted and explained
- identified/recorded

#### *Outcomes for people*

With our investment, people will have:

- developed skills
- learnt about heritage
- changed their attitudes and/or behaviour
- had an enjoyable experience
- volunteered time

#### *Outcomes for communities*

With our investment:

- environmental impacts will be reduced
- more people and a wider range of people will have engaged with heritage

- the local area/community will be a better place to live, work or visit
- the local economy will be boosted
- the organisation receiving the grant will be more resilient.

HLF has committed to bringing leaders and opinion-formers together to consider the future of heritage as part of its Advocacy Strategy 2013–15. A programme of engagement starting this year is under discussion with a series of smaller events across the UK culminating in a debate and conference in London marking 20 years of lottery funding provisionally timetabled for summer 2014. The working title is 'The Business of Heritage' and will focus on our themes such as Growth, Communities and Future Generations.

#### Employee consultation

The nature of the operations of the Fund means that grant-application-processing staff work closely with Trustees. Staff are involved in project assessment and monitoring, as well as applicant visits with Trustees. Many members of staff attend meetings of Trustees, which enables them to be aware of thinking about the development of the Fund and its operations. Additionally, senior management ensures – through summaries of Management Board meetings in the monthly core brief, face-to-face meetings and a high level of personal accessibility – that matters of concern to staff can be readily addressed. It is essential that all staff are given the opportunity to contribute to the development of the Fund as well as achieving their own potential through regular consultation and discussion. To this end, a Staff Council is in existence. Comprising representatives from each department, it discusses matters of interest to staff with representatives from management. It meets nine times a year.

#### Equal opportunities

As an employer, NHMF abides by equal opportunities legislation. The Fund does not discriminate against staff or eligible applicants for job vacancies on the grounds of gender,

marital status, race, colour, nationality, ethnic origin, religious belief, disability, age or sexual orientation. Every possible step is taken to ensure that staff are treated equally and fairly, and that decisions on recruitment, selection, training, promotion and career management are based solely on objective job-related criteria. NHMF does not tolerate any form of discrimination, harassment or victimisation. The Fund welcomes job applications from people with disabilities, and currently around 5.3% (2011–12: 6%) of our workforce is made up of people with declared disabilities. All staff are required to co-operate in making this policy work effectively.

During the past year the Staff Disability Action Group has met twice and continued the concept of inviting selected charities to attend and present to staff following the business meeting. These have been well attended and the format ensures colleagues in the regional and country offices are able to video conference into the session and thus increase the number of participants. In 2012–13 representatives from Dyslexia Assessment and Consultancy and Action on Hearing Loss were invited and along with other diversity and equality training this has enabled staff to have the confidence to declare a disability.

#### Payables

NHMF adheres to the government-wide standard on bill-paying and the CBI Better Payment Practice Code, which is to settle all valid bills within 30 days. In 2012–13, the average age of invoices paid was ten working days (2011–12: 8 days). Over 90% of invoices were paid within 30 calendar days (2011–12: 95%).

Another way of measuring our commitment to paying suppliers is the ratio of creditor days – the ratio of trade payables at the end of the year to the total value of purchases in the year expressed in terms of days. At 31 March 2013, the figure was 27 days (2011–12: 19 days).

#### Pension liabilities

The Fund makes contributions to the pension schemes of staff. Other than making these payments, the Fund has no pension liabilities. Further information is available in the Notes to the Accounts.

#### Tax arrangements of public sector employees

Following recent concerns about tax avoidance in the public sector, the Treasury now requires all central government bodies to report on the tax affairs of senior management and long-term contractors. In particular, the Treasury requires all senior management to be on the payroll. They also require contractors to provide assurance regarding their income tax and national insurance obligations – the contract should be terminated if that assurance is not provided.

All senior employees of NHMF, including Trustees and regional/country committee members are on the payroll and, therefore, pay tax and national insurance on the money received from us. There are no long-term contractors whose income exceeds the Treasury threshold of £220 per day and so we have not sought assurance on their tax arrangements.

#### Register of interests

As a matter of policy and procedure, the Trustees declare any direct interests in grant applications and commercial relationships with NHMF and exclude themselves from the relevant grant appraisal, discussion and decision processes within NHMF. In their contacts with grant applicants, Trustees seek to avoid levels of involvement or influence that would be incompatible with their responsibilities as a Trustee of NHMF. There are corresponding arrangements for staff to report interests and avoid possible conflicts of interest. The Register of Trustees' Interests is available for public inspection by contacting the Secretary to the Board, 7 Holbein Place, London SW1W 8NR.

### Appointment of auditors

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

### Key stakeholders

The main stakeholder of NHMF's Lottery distribution activities is DCMS, which controls the NLDF that invests the money received from the National Lottery and co-funded our Catalyst grant programme in 2012–13. The other key stakeholders are a body that carries out assessment processing on our behalf for a grant programme – English Heritage (Repair Grants for Places of Worship programme in England) – and the Big Lottery Fund, which contributes to our Parks for People grant programme in England.

### Events after the reporting period

There were no events that occurred after 31 March 2013, up until the date the Accounting Officer signed these accounts, that need to be brought to the attention of the reader. The Accounting Officer authorised the accounts for issue on 5 July 2013, which was the date the accounts were certified by the Comptroller and Auditor General.

### Environmental policies and sustainability performance

The Treasury requires all public sector bodies to produce sustainability reports from 2011–12. 2010–11 was a “dry run” and from 1 April 2010, NHMF recorded its carbon footprint in terms of business travel undertaken, waste generated and energy consumption. However, 2010–11 was the first year of collecting the information and was not a reliable baseline; for example, none of our landlords provide figures for kilowatt hours of gas or electricity used, nor were they able to bill quickly enough after the year end to provide figures in time for the production of year-end accounts. This means that we often had to use estimates for most offices. From 2011–12 we have collected kilowatt hours for both gas and electricity and had more invoices for the

period. 2011–12 therefore represents the first reliable baseline from which we will be able to monitor trends.

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

### Summary of performance

Our emissions have fallen in 2012–13. This is because we have reduced the size of our estate. We have also increased staff numbers occupying the smaller estate and so there has been an even sharper fall in full time equivalent figures.

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

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

Area	2012-13	2011-12
Greenhouse-gas emissions		
– scopes 1, 2 & 3 business travel including international air/rail travel (tCO <sub>2</sub> e)	<b>550.2</b>	747.1
Estate energy		
– consumption (kWh)	<b>1.1million</b>	1.3million
– expenditure	<b>£489,638</b>	£384,532
Estate waste		
– consumption (tonnes)	<b>24.2</b>	18.9
– expenditure	<b>£5,518</b>	£6,640
Estate water		
– consumption (m <sup>3</sup> )	<b>3,757</b>	5,223
– expenditure	<b>£11,253</b>	£18,786

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

Area per FTE	2012-13	2011-12	2010-11
Greenhouse-gas emissions			
- scopes 1, 2 & 3 business travel including international air/rail travel (tCO <sub>2</sub> e)	2.1	3.3	2.5
Estate energy			
- consumption (kWh)	4,059	5,701	5,686
- expenditure	£1,898	£1,679	£1,530
Estate waste			
- consumption (tonnes)	0.1	0.1	0.2
- expenditure	£21	£29	£34
Estate water			
- consumption (m <sup>3</sup> )	15	23	63
- expenditure	£44	£82	£81

### Greenhouse-gas emissions

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

Kilowatt hours are converted to carbon dioxide equivalent tonnes using a conversion factor supplied by the Department for Environment, Food and Rural Affairs (DEFRA). The carbon dioxide equivalent for emissions from our air conditioning chillers was also calculated using the formula set out in DEFRA's guidance ([https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/69555/pb13773-ghg-conversionfactors2012.xls](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/69555/pb13773-ghg-conversionfactors2012.xls).)

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

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

### Waste

Waste generation has risen in 2012-13. This is inevitable in a year where there were a number of office relocations – items are junked rather than being moved to the new location. The fact that the new offices were smaller than previously occupied was a further incentive to throw away unnecessary items.

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

Our country and regional offices are small enough to weigh all the waste they generated. There is no reliable way to measure the much greater volume of waste removed by Kensington & Chelsea Council in London because the council does not tell us the weight of what they remove. We have therefore calculated the amount of waste generated per person based on actual weights in our country and regional offices and applied that to staff in London. It would be helpful if councils routinely weighed the waste they removed from offices.

*Use of resources*

Water consumption fell in 2012–13. This is a result of our replacement of the air conditioning system in 2010–11. We did not empty the water tanks utilised by the old system until 2011–12 and this inevitably generated a lot of waste water.

Water consumption information is derived from the supplier's invoices for our head office in London. We have installed new water meters at our head office to enable us to monitor consumption more effectively in the future. For the other offices we occupy, landlords provide information about the number of cubic metres consumed based on the space we occupy, rather than by individual metering.

We are currently undertaking a review of electricity consumption at our head office in London. This involves an investigation of power usage on each floor through the placement of meters and undertaking enhanced maintenance to improve the efficiency of our electrical devices.

*Additionality*

In accordance with the Financial Direction of the Secretary of State, all Lottery distributors are required to have regard to additionality principles. Our requirement for Lottery grants is that our funding should be in addition to available government funding, it should not be instead of central government funding. Thus we will not give grants to projects where we believe that government funding was available at the time of decision. As part of their grant-assessment routine, our staff will quiz applicants as to whether they have considered alternative sources of funding.

Chair and Trustees of NHMF

*Chair*

Dame Jenny Abramsky<sup>2</sup>

*Trustees*

Angela Dean *from 12 June 2012*

Kim Evans<sup>2</sup>

Yinnon Ezra<sup>1</sup>

Kathy Gee

Doug Hulyer<sup>1</sup>

Hilary Lade<sup>2</sup>

Alison McLean<sup>1</sup>

Richard Morris

Atul Patel<sup>2</sup>

Seona Reid

Ronnie Spence<sup>1</sup>

Virginia Tandy

Manon Williams

Christopher Woodward

*Chief Executive*

Carole Souter<sup>2</sup>

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

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

**Dame Jenny Abramsky**  
Chair

**Carole Souter**  
Chief Executive

2 July 2013

## Financial review

NHMF operates two funds – its original grant-in-aid fund (NHMF) and its Lottery distribution activities (referred to as HLF). It is required, by the accounts' direction of the Secretary of State for Culture, Media and Sport, to account for these activities separately and so no consolidated accounts are prepared. This review discusses solely the activities of NHMF's Lottery distribution activities.

HLF receives applications from thousands of organisations across all communities of the UK and awards grants on the basis of its aims. Since the Lottery started in 1994, HLF has made over 41,000 awards and dealt with almost 60,000 grant applications. During the year, almost 3,800 grant applications were received (a 50% increase on last year), requesting over £871million (a 3% increase on last year). The level of requests was well over twice our income despite the large rise in our income. This demonstrates that there is still huge and growing demand for heritage Lottery money 19 years after the Lottery started. The main cause of the increase in applications was our one-off All Our Stories programme. This attracted almost 1,100 applications.

During the course of 2012–13, Trustees signed contracts for £370million of grant awards, which was a 19% rise over 2011–12 and 54% over the situation in 2010–11. This shows the impact of significantly increased grant award budgets. Positive decisions in the year were £398million, a 38% increase on 2011–12. These impressive increases were possible through our rising income and the continuing exceptional demand for our funds. Trustees aim to ensure that the UK's heritage benefits massively from their funding, but are determined that increases in the level of awards are not as a result of lowering the quality threshold of the projects they support. The increase in decisions also demonstrates the organisation's ability to cope effectively with the rise in income.

Overall, net income rose from £260million in 2011–12 to above £369million this year. Income from the National Lottery rose to £387million (2011–12: £302million), with an additional £2million (2011–12: £2million) in investment income earned by the NLDF and allocated to us. Continuing low gilt yields are the reason for the low investment income returns as the NLDF is invested in a narrow range of low-yield, low-risk, investments. Our income from the National Lottery was again tempered by a transfer to the Olympic Lottery Distribution Fund. This year the transfer fell to £20million as the Olympics took place. This meant that our total contribution to the success of the 2012 Olympics was £161.2million over the past few years and there will be no more transfers.

The balance of HLF funds at the NLDF rose from £375million to £475million at the end of the financial year. Trustees had expected the balance to rise further, but whilst income was slightly higher than the projection provided to us by DCMS our grant payments fell well short of forecast. Despite our grant and operating budgets being in excess of forecast income, we expect the balance to continue to rise over the next few years. The ending of our contribution to the Olympics, the surge in ticket sales and the Government's decision to return our share of good causes' money to 20% meant that our income has risen significantly and very quickly. Unfortunately, there is a time lag between this increase in money being paid into the NLDF and it being drawn down by our grant recipients. We continue to seek ways to keep our NLDF balance under control, but grant recipients cannot accelerate their projects so that they draw funds down sooner.

The table below illustrates the value and type of grant decisions made in the year. Stage-one soft commitments are a relic from our second strategic plan (which ended in 2008) where there are still some recipients of these decisions who have yet to return with a stage-two application. We are pleased to say that there are very few of them. First-round soft commitments refer to initial

decisions on applications made under our third strategic plan for programmes where the second-round decision is highly likely to be positive. Grant awards are made when stage-one and first-round decisions are converted into full awards. The balance of grant awards at the year end, £3.4million, represents those awards that have not been converted to hard commitments through the signing of a grant contract.

Taking into account all the stage-one and first-round decisions, as well as all grant awards and hard commitments, at the end of the financial year HLF had committed over £365million more than it had in the NLDF. The balance of contractual liabilities significantly exceeded HLF's net assets during the year, and there was a net deficit on the Statement of Financial Position in excess of £252million at 31 March 2013. In addition, there was another £479million of non-commitment first-round passes (on programmes where a soft commitment is not recognised at the first-round stage) which will probably become full awards in the next few months. Adding these to our existing commitments means that we are over-committed by over 2¼ years' expected income. This demonstrates Trustees' determination to try to keep the balance at the NLDF from growing too fast.

The accounts have been prepared on a going concern basis as required by International Accounting Standards and

because Trustees were assured, as recently as February 2012, that the government has no plans to change the percentage of good-causes money received by NHMF or to change Lottery distributors.

Overall, operating costs rose by 7.7% during the year. The increase was anticipated in last year's financial review and has occurred in a year when the increase in the retail prices index exceeded 3% and the Government finally ended its pay freeze. This is the first increase since 2007–08 and whilst the rise is large, the organisation remains a highly efficient distributor of funds from the National Lottery – the evidence is shown in the chart below. The increase in costs was inevitable given the seemingly ever-increasing number of grant applications that we receive. We aim to provide a satisfactory service to all our applicants, whether they are successful or not, and this requires resources. The large increase in the grant budget means that more applications are receiving awards, which again costs us more in terms of resources. The increase in the number of our grants in recent years will result in a bulge in the number of projects being monitored and the number of grant payments made in future years.

There was a 6.2% rise in staff costs. The government's continued restraint in public-sector wages means that the rise in costs is a result of an increase in staff – there was a rise of 29 in the average number. Of that

## Commitments table

	Stage-one and first-round soft commitments* £m	Grant awards £m	Hard commitments £m	Total decisions £m
At start of the year	69.3	5.4	625.9	
Trustees' decisions in the year	70.7	327.9	–	398.6
Converted in the year	(40.3)	40.3	–	
Converted in the year	–	(370.7)	370.7	
De-commitments	(2.4)	0.5	(7.0)	
Grant payments	–	–	(249.4)	
<b>At end of the year</b>	<b>97.3</b>	<b>3.4</b>	<b>740.2</b>	

\* Not all first-round passes are treated as commitments. First-round passes for applications under the Heritage Grants and the Parks for People programme are not regarded as soft commitments.

rise of 29, there was an increase of 24 in our Operations' department reflecting our commitment to processing effectively the rise in applications. There is likely to be a further small increase in numbers in 2013–14.

There was an increase in depreciation, which was not surprising following the significant levels of capital expenditure over the past few years. This is due to the charge on software expenditure on updating our working systems for processing grant applications and awards.

Other operating costs rose by 9.5%. Accommodation costs fell by 10%. As most of our office leases have expired over the past couple of years, we have taken advantage of a favourable rental market to find smaller and cheaper accommodation or re-negotiate existing leases. The net result of this is that our expenditure on rent has fallen 13% and will fall further in 2013–14 when the effect of a full year of reductions is felt. Otherwise costs rose as a reflection of the increased activity in assessing applications and monitoring grants. This was coupled with this year being the culmination of activity for the launch of our new strategic framework.

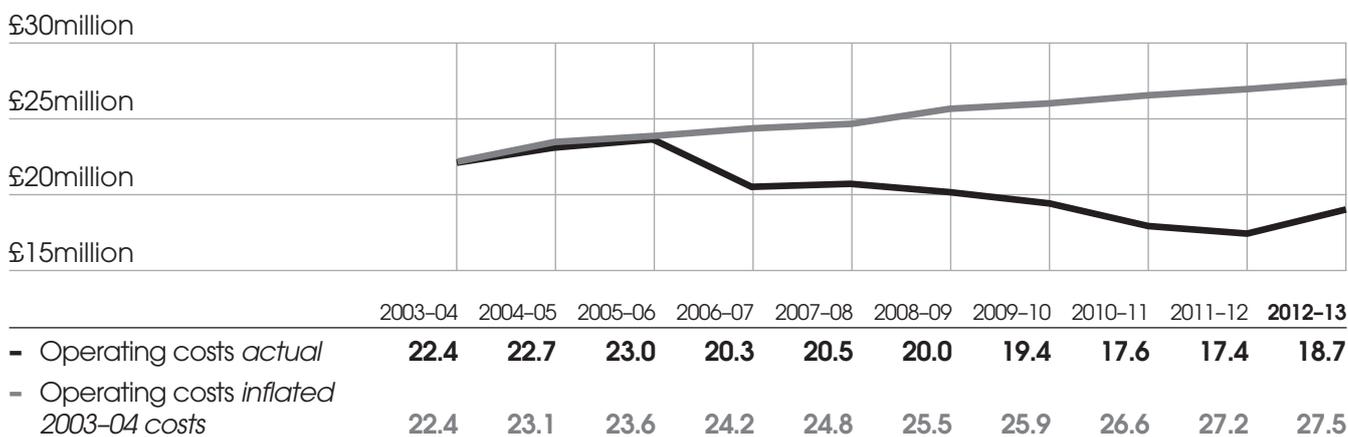
Our operating costs also benefit from two contributions from central government bodies:

- 1 from the Big Lottery Fund (BLF) towards the cost of running the Parks for People programme, to which they contribute some grant funding. Their contribution fell from £440,000 to £375,000.
- 2 from the Committee on Climate Change (CCC) towards to cost of their occupying most of the first floor at our London office. CCC has been accommodated since May 2011 and their contribution is in terms of rent and service charges. In 2012–13 they were charged £206,000 (2011–12: £178,000).

Whilst DCMS is contributing towards our Catalyst grant awards made in 2012–13, it is not making any contribution towards the cost of operating that programme.

Trustees recognise that being an efficient distributor of Lottery funding should not be achieved at the expense of service to our customers. They are pleased to report that despite the spectacular increase in applications and awards we continue to meet our service level targets for both applicants and grantees. Further information on our service level targets is available elsewhere in the annual report. We made approximately 2,500 heritage awards in the year, up 36% from the previous year. This improvement was brought about with processing costs rising by less than 10%.

#### Actual operating costs vs inflated 2003–04 costs



(Please note that operating costs from 2006–07 and earlier were not produced under International Financial Reporting Standards)

Trustees pay tribute to the staff of NHMF in bringing this about.

The Trustees consider the risks faced by HLF at monthly Board meetings and through their Audit Committee. An annual register is created of the highest-level risks, which is reviewed on a quarterly basis. The principal risks are discussed further in the governance statement.

#### Key performance indicators

HLF has a reputation as an efficient distributor of Lottery funds. The chart above sets out our operating costs in each of the last ten years since we created our regional office structure – the black line. The grey line shows the value of operating costs incurred ten years ago when increased in line with the Treasury’s GDP deflator – an estimate of the general level of inflation in the UK economy. Whilst our costs have risen in 2012–13, Trustees are pleased to note that this year’s operating costs are £9million (or 32%) lower than inflation since 2003–04 would have suggested – representing a significant real-terms reduction in operating costs and releasing extra funds for grants. If the Retail Prices Index were used rather than the GDP deflator, costs would be £11.5million (or 38%) below the 2003–04 level.

Targets have been set by ministers requiring us to keep our grant-processing costs below 5% of income and our operating expenditure below 8% of total income. We have been given until 2013–14 to achieve these targets. Operating expenditure is all that we spend that is not a grant payment. Grant-processing costs are regarded as being purely those costs that NHMF incurs that relate to its processing of Lottery grant applications and its associated operating overhead. To get to a figure for operating costs, we take our operating expenditure and we exclude those costs that relate to us assisting potential applicants – development and outreach work, workshops, publications, mentoring and operating a website – as well as our research activities.

In 2012–13, we achieved the following:

	Target	Actual 2012-13	Actual 2011-12
Operating expenditure as a proportion of total income	8%	4.8%	5.7%
Processing expenditure as a proportion of total income	5%	3.8%	4.5%

Trustees are pleased to note that the targets continue to be met. Whilst we have undoubtedly benefitted from higher levels of income, we also have to undertake much more work as the number of applications is higher and the value of awards is much higher than when the targets were set.

#### Personal data

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

#### Sickness absence

In 2012–13, 1,151 days were lost due to 366 sickness episodes (2011–12: 1,579 days in 327 episodes), which continue to represent a very modest 1.28% of all working days (2011–12: 1.93%).

## Remuneration report

### Remuneration of the Chair and Trustees

All Trustees were entitled to receive an annual salary for the time spent on the activities of NHMF. In addition, NHMF reimbursed travel expenses of certain Trustees from their homes to their office of employment in London, Edinburgh, Cardiff or Belfast. The Fund met the tax liability on these expenses.

The remuneration of those Trustees that received payment, including reimbursement of taxable expenses and the tax thereon, falls into the bands in the table on the right. All Trustees are appointed by the Prime Minister. They have three-year appointments, potentially renewable for a second term. With the approval of the Prime Minister, Ronnie Spence, Doug Hulyer, Kathy Gee and Christopher Woodward have been appointed for shorter third terms. They are not members of the pension scheme utilised by NHMF. No contributions were made by the Fund to a pension scheme on the Trustees' behalf.

All Trustees' remuneration was allocated between NHMF and its Lottery distribution activities on the basis of 1%: 99%. The total remuneration of Trustees in 2012–13 was £202,111 (2011–12: £205,235). The pay and contracts of Trustees are discussed and set by DCMS. Their contracts do not contain any bonus clauses. There were no benefits in kind or non-cash elements paid to Trustees or directors.

### Audited information

	2012–13 £'000	2011–12 £'000
Dame Jenny Abramsky <i>Chair</i>	<b>40–45</b>	40–45
Angela Dean <i>from 12 June 2012</i>	<b>5–10</b>	0
Kim Evans	<b>5–10</b>	5–10
Yinnon Ezra	<b>5–10</b>	10–15
Kathy Gee	<b>5–10</b>	10–15
Doug Hulyer	<b>5–10</b>	5–10
Dan Clayton Jones <i>to 11 January 2012</i>	<b>0</b>	15–20
Hilary Lade	<b>10–15</b>	10–15
Alison McLean	<b>5–10</b>	5–10
Richard Morris	<b>5–10</b>	5–10
Atul Patel	<b>5–10</b>	5–10
Seona Reid	<b>20–25</b>	20–25
Ronnie Spence	<b>20–25</b>	20–25
Virginia Tandy	<b>10–15</b>	10–15
Richard Wilkin <i>to 11 January 2012</i>	<b>0</b>	5–10
Manon Williams <i>from 12 January 2012</i>	<b>20–25</b>	0–5
Christopher Woodward	<b>5–10</b>	5–10

Remuneration of employees (Audited information)

The remuneration of directors was as follows:

	Salary 2012-13 £'000	Salary 2011-12 £'000	Bonus 2012-13 £'000	Bonus 2011-12 £'000	Real increase in pension and lump sum £'000	Total accrued pension at age 60 and lump sum £'000	Cash Equivalent Transfer Value (CETV) at 31/03/13 £'000	CETV at 31/03/12 £'000*	Real increase in CETV funded by NHMF £'000
Carole Souter <i>Chief Executive</i>	<b>130 to 135</b>	130 to 135	<b>0 to 5**</b>	0 to 5**	0 to 2.5 and 2.5 to 5 lump sum	55 to 60 plus 165 to 170 lump sum	1,120	1,050	12
Robert Bewley <i>Director of Operations</i>	<b>90 to 95</b>	90 to 95	<b>5 to 10</b>	0 to 5	0 to 2.5 and 0 to 2.5 lump sum	30 to 35 plus 95 to 100 lump sum	674	627	11
Judith Cligman <i>Director of Strategy and Business Development</i>	<b>90 to 95</b>	90 to 95	<b>5 to 10</b>	0 to 5	0 to 2.5 and 0 to 2.5 lump sum	30 to 35 plus 95 to 100 lump sum	612	570	10
Steve Willis <i>Director of Finance and Corporate Services</i>	<b>105 to 110</b>	100 to 105	<b>5 to 10</b>	0 to 5	0 to 2.5 and 0 to 2.5 lump sum	55 to 60 plus 175 to 180 lump sum	1,314	1,237	8

\* These figures are different to those quoted in last year's accounts. The actuarial factors used to calculate cash equivalent transfer values were changed in 2012-13. The CETVs at 31/03/13 and 31/03/12 have both been calculated using the new factors, for consistency.

\*\* Carole Souter waived her right to a director's bonus in both 2012-13 and 2011-12.

The accrued pension quoted is the pension the member is entitled to receive when they reach 60, or immediately on ceasing to be an active member of the scheme if they are already 60. The pension age is 60 for members of classic, premium and classic plus and 65 for members of Nuvos.

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

*Cash Equivalent Transfer Values*

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a

payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out within the guidelines and framework prescribed by the

Institute and Faculty of Actuaries and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

#### *Real increase in CETV*

This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation or contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement). It uses common market valuation factors for the start and end of the period.

All senior employees had permanent contracts of employment and were ordinary members of the Principal Civil Service Pension Scheme (PCSPS). Their costs were allocated between HLF and NHMF on the basis of 99%: 1% (2011–12: 99%: 1%). The remuneration of senior managers is performance-related. The sum is based on performance against individual objectives and on overall contribution to corporate strategy and goals. Individual objectives for the Chief Executive are set by the Chair of the Board of Trustees, and the Chief Executive in turn agrees personal objectives with the function directors. Objectives reflect the strategic and operational goals of the Fund and the contribution expected of each individual senior manager to achieving the goals. The Fund has a performance management system, and performance is reviewed in line with this. Performance is reviewed annually in March–April and rated on a scale of four different levels of achievement. There is a bonus scheme for the directors which takes into account the Finance and Resources Committee’s (membership of this committee is disclosed on page 10) view of the individual’s contribution towards the wider success of the organisation, with particular reference to their management of their own department and their impact on other areas; the individual’s impact on Trustees and their effectiveness; and any exceptional

contribution or achievement during the year which was not reflected in the key objectives for the year. This policy is expected to continue in future years. Senior management are appointed on open-ended contracts with notice periods of no more than six months. In the event of considering termination payments, the Fund would adhere fully to the rules of the Civil Service Compensation Scheme and any associated guidance from Treasury or DCMS.

#### *Remuneration ratio*

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

The banded remuneration of the highest-paid director in 2012–13 was £130,000 to £135,000. This was five times the median remuneration of the workforce, which was £25,593 (2011–12: £26,372). There were no employees who received remuneration in excess of the highest-paid director. In 2012–13 the Fund created 17 new posts and the starting salary of the majority of the new entrants was less than £26,372, the median in 2011–12. That has had the effect of reducing the median salary in the organisation. The highest paid director was subject to the Government’s 1% cap on pay increases.

*Exit packages*

Under the terms of Employer Pensions Notice 296 issued by the Cabinet Office in March 2011, NHMF is required to publish details of all exit packages agreed in the financial year under review. Falling under the definition of exit packages are compulsory and voluntary redundancies, early retirement, compensation for loss of office, ex-gratia payments etc. There was one in 2012–13 (2010–11: one).

Audited information

	2012-13 Number	2011-12 Number
£5,000–£10,000	1	0
£30,000–£35,000	0	1

**Carole Souter**  
Chief Executive

2 July 2013

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

Under section 34(1) of the 1993 Act, Trustees of NHMF are required to prepare a statement of accounts for each financial year in the form and on the basis determined by the Secretary of State for Culture, Media and Sport with the consent of the Treasury. The accounts are prepared on an accruals basis (with the exception of commitment accounting for grant awards as required by the Secretary of State's accounts' direction) and must give a true and fair view of the Fund's state of affairs at the year end, and of its income and expenditure, recognised gains and losses and cash flows for the financial year.

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

- 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, as set out in the FREM, have been followed, and disclose and explain any material departures in the financial statements; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Fund will continue in operation.

The Accounting Officer of DCMS has appointed the senior full-time official, the Chief Executive, as the Accounting Officer for the Fund. Her relevant responsibilities as Accounting Officer, including her responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for the safeguarding of the Fund's assets and for the

keeping of proper records, are set out in the Non-Departmental Public Bodies' Accounting Officers' Memorandum, issued by the Treasury and published in *Managing Public Money*.

So far as the Accounting Officer is aware, there is no relevant audit information of which our auditors are unaware. The Accounting Officer has taken all steps that she ought to have taken to make herself aware of any relevant audit information and to establish that our auditors are aware of that information.

**Dame Jenny Abramsky**  
Chair

**Carole Souter**  
Chief Executive

2 July 2013

## **Governance statement**

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

### The governance framework

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

The National Heritage Memorial Fund (NHMF or 'the Fund') is vested in and administered by a body corporate known as the Trustees of NHMF, consisting of a Chair and not more than 14 other members appointed by the Prime Minister. The Fund was set up on 1 April 1980 by the National Heritage Act 1980. The powers of the Trustees and their responsibilities were extended by the provisions of the National Lottery etc. Act 1993, the National Heritage Act 1997 and the National Lottery Act 1998.

I work closely with the Board of Trustees of NHMF, who share a responsibility to:

- give leadership and strategic direction;
- define control mechanisms to safeguard public resources;
- supervise the overall management of NHMF's activities; and
- report on the stewardship of public funds.

The Board of Trustees operates as a group and held 10 meetings during the year to set policy for NHMF and make decisions in line

with that policy. These meetings are held in my presence and that of my colleagues in senior management. All Board meetings held in 2012–13 were quorate. The overall average attendance rate of Trustees was 90%, with no Trustees attending less than 73% of Board meetings. Trustees have also delegated some of their tasks to two sub-committees – Finance and Resources, and Audit. These committees oversee the activities of management and provide support. The minutes of committee meetings are standing items on the agenda of Board meetings and the committee chairs provide a full report on their activities.

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

The Audit Committee comprises four Trustees and is chaired by a Trustee. It met three times during the year and was quorate on each occasion. I attend each meeting along with the Director of Finance and Corporate Services. Its terms of reference include the activities of the internal and external auditors and overseeing the risk culture of NHMF. The committee makes regular reports to the Board, and Trustees are satisfied that the committee is providing them with the assurance they require.

The Trustees have also delegated their grant-decision-making responsibilities for certain types and values of Lottery awards to country and regional committees. There are 12 of these committees and each contains one Trustee. In addition to making grant decisions, these committees provide advice to the Board on priorities within their area and act as advocates of Trustees' Lottery activities. Trustees have also delegated grant-decision-making for grants under £100,000 to staff; specifically heads of regions and countries. Members of country and regional committees attend meetings to advise on small grants decisions, and committees annually review small grants activity, including risk management. An annual report on the impact of small grants across all committees is presented to the Board. All decisions made by staff are reported to the Board.

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

Our combined strength allows us to maintain a robust internal control system that is sufficiently flexible to cope with the changing demands of our stakeholders and allows us to keep up-to-date with innovations in administration. Our system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the

achievement of NHMF's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The annual operating plan of NHMF – the business plan – is discussed with our sponsor department, DCMS. DCMS has also set policy and financial directions with which we have complied in our Lottery activities (the Welsh Assembly and the Scottish Parliament have also issued some policy directions with regard to our Lottery distribution activities in those countries). We also operate in line with an agreed Management Statement and Financial Memorandum based upon a template devised by the Treasury. This includes regular meetings with senior officers of DCMS and with fellow Lottery distributors.

#### Risk assessment

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

The Fund's appetite for risk, as set out in the risk-management strategy, states: "Well-thought-through risk-taking and innovation to achieve NHMF objectives should be encouraged. This means that a 100% risk-avoidance culture is not the most effective use of our resources." I believe that the Fund demonstrates innovation in its choice of grant awards and it does not resort to simply making risk-free decisions. To this end, we are prepared to accept that some of the organisations to whom we give grants will not subsequently demonstrate competence in the administration of the

grant. We learn our lessons, improve our processes and, in rare circumstances, write off the grant. In the worst cases, we may have to call in the police. I approve all write-offs and this allows me to monitor the amount each year to ensure that there is no suggestion that our assessment and monitoring processes are lax. As can be seen from the relevant note to the accounts, the level of grant write-off is extremely small relative to the amount of money we distribute each year. On the other hand, the high level of customer satisfaction demonstrated in independent surveys suggests that our working practices are not too onerous for applicants. Consequently, I am able to conclude that there is no cause for concern about the level of risk implicit in our processes.

On an annual basis, risks are categorised by considering the likelihood of occurrence should no risk-mitigation activity occur and the impact should the risk happen. The risks where the potential impact is deemed high form the NHMF risk register. The risk register forms part of the annual business plan of the Board of Trustees, having been previously endorsed by the Audit Committee. The Management Board assigns to senior managers (the 'risk owners') the task of putting procedures in place to monitor and, where possible, mitigate the risk.

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

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

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

In 2012–13, NHMF considered the following to be the most significant areas of risk:

- growing demand in a worsening economic climate puts pressure on the NHMF endowment fund and/or loss of heritage resulting in negative publicity and reduction of stakeholder confidence;
- the high number of forthcoming changes to the membership of the Board, or delays in the process of appointment, undermines the Board's ability to provide effective governance and/or robust decisions on grant applications;
- failure of awarded grants to meet our strategic objectives;
- demand for awards, pre-application advice and monitoring exceeds our operational capacity;
- failure of our strategy to keep pace with the needs of the heritage and changes in the external environment, and therefore lack of support for it by our stakeholders;
- failure to set and follow efficient procedures, thereby giving rise to the risk of inefficiency, fraud or of making decisions open to challenge;

- failure to recruit, retain and motivate appropriately skilled staff;
- that support and influence lessen as a result of low awareness and understanding of the benefits of our investment by stakeholders; and
- risk of increased media and opinion-former scrutiny of our funding decisions in current economic and political conditions with potential for adverse response.

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

Significant issues dealt with by the Board during the year

The most significant activity for the Board has been the preparation for its new strategic framework, known as SF4. It was issued in 2012–13 having been in preparation for a number of years. The new policies and procedures outlined within that document are relevant to 2013–14 and beyond. As there were a large number of new programmes as well as changes to existing programmes, Trustees spent a lot of their time considering the impact of the changes on potential applicants and the UK's heritage. A significant amount of work has been undertaken in consulting with stakeholders and analysing their comments and then consolidating it all into a strategic framework that will be launched during 2012–13.

The significant rise in Lottery income over recent years, as a result of improving ticket sales, the government's decision to increase our share of good causes' money to 20%, and the ending of the transfers to help fund the 2012 Olympics, has allowed large rises

in the grant budget. This has been coupled with steep rises in the number of grant applications. Trustees sought and received assurances from management that the administrative structure of NHMF is capable of handling such a large increase in work. To this end, Trustees approved a significant increase in staff numbers following a review by management of resources.

Nothing of concern emerged from any of the committees set up by the Board. Reports from the internal and external auditors were satisfactory (more details below).

The performance of the Board  
The Board undertook its annual assessment of its own effectiveness in January 2013. In line with its decision to engage external facilitation to assist the review once every three years, the Board appointed Grant Thornton to design and analyse responses to a self-evaluation questionnaire, and assist the Board in considering its results. The review concluded that the organisation was well run, with effective governance and audit procedures. The Board was happy with its performance in the year and considered that it had met the Treasury's Corporate Governance Code. There was nothing in any of the internal or external audit reports put before the Board's Audit Committee that gave it any cause for concern. Consequently, the Board believes it can rely on the quality of data put before it by management and upon which it bases its decisions.

As part of its annual review, the Board agreed the following:

- to articulate more specifically those matters reserved for the Board
- that non-grant board papers should begin with a summary drawing attention to any decisions required
- to look more closely at planned research activity and at how the Board could most effectively monitor and evaluate grants awarded

- that sectoral and specialist briefings for staff also be of benefit for trustee learning
- to introduce an exit interview process for trustees and committee members
- to ask Committees to also reflect on their own effectiveness

All new Trustees receive induction at the time of their appointment, which introduces them to their obligations as a Trustee, the work of NHMF and its systems, thereby helping to prepare them to make a full contribution to the working of the Board. The effectiveness of Trustees is appraised by the Chair on a regular basis.

The governance year

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review is informed by the work of the internal auditors and senior management within NHMF who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. As a result of their work during the year, the internal auditors have produced an annual certificate of assurance with regard to the adequacy of the systems and the operation of internal controls within NHMF. In addition, I have seen the management letter prepared by the external auditors following their audit of the accounts for the year ended 31 March 2013. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board of Trustees and the Audit Committee, and a plan to address weaknesses and ensure continuous improvement of the internal control system is in place.

The annual internal audit plan is created on a risk basis; the internal auditors were provided with a copy of the draft risk register for 2012 when preparing their plan. The Audit Committee reviewed and approved the internal audit plan. I ensured that there

was sufficient flexibility in the plan to allow for changes to be made during the year to reflect any significant changes in the risk environment or the emergence of new risks. However, there was none.

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

The most significant audit reports in 2012–13 resulted from a review of our preparation for the delivery of our new strategic framework, which goes live in April 2013, and the changes we made to the distribution of grants within our small grant programmes – award decisions are made by our regional and country heads with a total value of around £30million. In April 2012, we increased the maximum award threshold from £50,000 to £100,000 and invited members of our regional and country committees to attend the decision-making meetings. I was gratified to note that the auditors were satisfied with the framework preparation and threshold transition and that my management has readily accepted the minor recommendations that the auditors made. Other internal audit reports looked at our payroll system, general controls in the finance section, and expert advice received as part of the grant application assessment process. The auditors identified areas where controls could be tightened and management has agreed to make

the necessary changes. As a result, I was satisfied with the results of those internal audit reports.

No changes of any significance have been made to our systems in 2012–13 and no problems have emerged that lead me to believe that the internal control system is not operating effectively. The internal auditors described NHMF as having “a sound and effective internal control framework in place” in their annual report to the Audit Committee. There was nothing in the management letter produced by the external auditors after their audit of these accounts and those of the previous year that leads me to doubt the adequacy of our systems.

I also required all members of senior and middle management to sign annual memoranda of representation to me, detailing their responsibilities and confirming that they have carried out these responsibilities in 2012–13. All managers have signed the memorandum and they are aware that I have placed reliance on these assertions of my management.

The Audit Committee prepares a report of its activity to the Board of Trustees once a year. Neither internal nor external auditors had uncovered anything untoward during the year. The committee concluded, at its most recent meeting in June 2013, that it had operated satisfactorily during 2012–13. The Board was pleased to hear this and endorsed this view at its June meeting. The Finance and Resources Committee prepares two reports a year to the Board in addition to supplying the minutes of its meetings. They were able to report that we had a successful year where the grant budget was met; we kept within our operating budget and met DCMS’s targets for Lottery-grant processing and total operating costs as a proportion of income; we had another successful year in attaining our service level targets and our customer satisfaction levels remain at a high point. All this was achieved at a time when grant applications are at higher levels than previous years and our

cost base, in real terms, remains at its lowest since we opened our country and regional offices a decade ago.

As a result of the above, I believe that the Fund's framework provides me with the level of assurance that I require. There is nothing of which I am aware that leads me to believe that our systems for detecting and responding to inefficiency, for preventing conflicts of interest, for preventing and detecting fraud and for minimising losses of grant-in-aid and Lottery grant are not adequate. I believe that the governance structure has operated successfully in 2012–13.

#### Attendance records

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

Board attendance record	Number of eligible meetings	Number of eligible meeting days	Actual attendance
Dame Jenny Abramsky	10	15	15
Angela Dean	8	12	12
Kim Evans	10	15	15
Yinnon Ezra	10	15	15
Kathy Gee	10	15	13
Doug Hulyer	10	15	15
Hilary Lade	10	15	15
Alison McLean	10	15	15
Richard Morris	10	15	13
Atul Patel	10	15	12
Seona Reid	10	15	14
Ronnie Spence	10	15	15
Virginia Tandy	10	15	15
Manon Williams	10	15	15
Christopher Woodward	10	15	11

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

Finance and Resources Committee attendance record	Number of eligible meetings	Actual attendance
Dame Jenny Abramsky	4	4
Kim Evans	4	4
Hilary Lade	4	3
Atul Patel	4	3
Carole Souter	4	4

**Carole Souter**  
Chief Executive

2 July 2013

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

I certify that I have audited the financial statements of the National Heritage Memorial Fund's Lottery Distribution Activities for the year ended 31 March 2013 under the National Lottery etc. Act 1993. The financial statements comprise the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Equity and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Trustees, Chief Executive/Accounting Officer and auditor

As explained more fully in the Statement of Trustees' and Chief Executive's Responsibilities, the Trustees and Chief Executive are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the National Lottery etc. Act 1993. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the National Heritage Memorial Fund's Lottery Distribution Activities circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by

the National Heritage Memorial Fund; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

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

Opinion on Regularity

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

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the National Heritage Memorial Fund's Lottery Distribution Activities affairs as at 31 March 2013 and of its operating deficit for the year then ended; and
- the financial statements have been properly prepared in accordance with the National Lottery etc. Act 1993 and Secretary of State directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with Secretary of State directions made under the National Lottery etc. Act 1993; and

- the information given in the Management Commentary and Financial Review for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

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

Report

I have no observations to make on these financial statements.

**Amyas CE Morse**  
Comptroller and Auditor General

5 July 2013

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

# Statement of Comprehensive Net Expenditure for the year ended 31 March 2013

	Notes	£'000	2012-13 £'000	2011-12 £'000
Proceeds from the National Lottery	10		<b>387,150</b>	301,663
NLDF investment income	10		<b>2,071</b>	2,171
			<b>389,221</b>	303,834
Less: amount transferred to the Olympic Lottery Distribution Fund by the Secretary of State for Culture, Media and Sport	10		<b>(20,208)</b>	(43,388)
			<b>369,013</b>	260,446
Interest receivable		<b>57</b>		59
Sundry income	2	<b>66</b>	<b>123</b>	73
<b>Total income</b>			<b>369,136</b>	260,578
New hard commitments	12	<b>(370,677)</b>		(311,338)
Hard de-commitments	12	<b>7,046</b>		6,317
			<b>(363,631)</b>	(305,021)
Staff costs	3	<b>(10,093)</b>		(9,508)
Depreciation and amortisation	7 and 8	<b>(796)</b>		(714)
Other operating charges	4	<b>(7,816)</b>		(7,136)
			<b>(18,705)</b>	(17,358)
<b>Total expenditure</b>			<b>(382,336)</b>	(322,379)
<b>Operating deficit</b>			<b>(13,200)</b>	(61,801)
<b>Other comprehensive expenditure</b>				
Net gain on revaluation of available for sale financial assets	17		<b>0</b>	3,386
<b>Total comprehensive expenditure for the year ended 31 March 2013</b>			<b>(13,200)</b>	(58,415)

All figures shown relate to continuing activities.  
The notes on pages 32 to 48 form part of these accounts.

## Statement of Changes in Equity for the year ended 31 March 2013

	Fair value reserve £'000	Income and expenditure account £'000
Balance at 31 March 2011	(352)	(180,177)
Changes in equity in 2011-12		
Release of fair value reserve to the income and expenditure account	352	(352)
Net gain on revaluation of investments	3,386	0
Retained deficit	0	(61,801)
Balance at 31 March 2012	3,386	(242,330)
<b>Changes in equity in 2012-13</b>		
Release of fair value reserve to the income and expenditure account	(3,386)	3,386
Net gain on revaluation of investments	0	0
Retained deficit	0	(13,200)
<b>Balance at 31 March 2013</b>	<b>0</b>	<b>(252,144)</b>

The fair value reserve relates to the difference between book cost and market value of the balance at the NLDF (see note 10). The difference between book and market value of intangible assets and property, plant and equipment (see notes 7 and 8 to the accounts) is not material. The notes on pages 32 to 48 form part of these accounts.

# Statement of Financial Position

## as at 31 March 2013

	Notes	2012-13 £'000	2011-12 £'000
<b>Non-current assets</b>			
Intangible fixed assets	7	69	548
Property, plant and equipment	8	1,096	1,017
<b>Current assets</b>			
Investments - balance at the NLDF	10	475,331	375,270
Trade and other receivables	9	4,303	9,557
Cash and cash equivalents		9,912	2,960
		<b>489,546</b>	387,787
<b>Total assets</b>		<b>490,711</b>	389,352
<b>Current liabilities</b>			
Administrative liabilities	11	(2,638)	(2,356)
Grant commitments within one year	12	(296,087)	(262,895)
<b>Non-current assets plus net current assets</b>		<b>191,986</b>	124,101
<b>Non-current liabilities</b>			
Grant commitments due in more than one year	12	(444,130)	(363,045)
<b>Assets less liabilities</b>		<b>(252,144)</b>	(238,944)
<b>Represented by:</b>			
Fair value reserve	17	0	3,386
Income and expenditure account brought forward		(242,330)	(180,177)
Transfer from fair value reserve		3,386	(352)
Movement in the year		(13,200)	(61,801)
Income and expenditure account carried forward		(252,144)	(242,330)
		<b>(252,144)</b>	(238,944)

The notes on pages 32 to 48 form part of these accounts.

**Dame Jenny Abramsky**     **Carole Souter**  
Chair                             Chief Executive

2 July 2013

# Statement of Cash Flows

## for the year ended 31 March 2013

	Notes	2012-13 £'000	2011-12 £'000
<b>Operating activities</b>			
Cash drawn down from the NLDF	10	<b>268,952</b>	255,780
Cash from other sources including loans		<b>2,366</b>	73
Cash paid to and on behalf of employees		<b>(9,966)</b>	(9,798)
Interest received on bank accounts		<b>57</b>	59
Cash paid to suppliers		<b>(9,346)</b>	(9,939)
Cash paid to grant and loan recipients		<b>(244,715)</b>	(235,866)
<b>Net cash inflow from operating activities</b>	14a	<b>7,348</b>	309
<b>Investing activities</b>			
Capital expenditure and financial investment	14b	<b>(396)</b>	(196)
<b>Increase in cash and cash equivalents</b>		<b>6,952</b>	113

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

### for the year ended 31 March 2013

	Notes	2012-13 £'000	2011-12 £'000
Increase in cash and cash equivalents in the period		<b>6,952</b>	113
<b>Changes in cash and cash equivalents</b>	14c	<b>6,952</b>	113
Cash and cash equivalents at 1 April 2012		<b>2,960</b>	2,847
<b>Cash and cash equivalents at 31 March 2013</b>		<b>9,912</b>	2,960

The notes on pages 32 to 48 form part of these accounts.

# Notes to the Accounts

## for the year ended 31 March 2013

### 1. Statement of accounting policies

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

#### a) Accounting convention

These accounts are drawn up in a form directed by the Secretary of State and approved by the Treasury. They are prepared under the modified historic cost convention. Without limiting the information given, the accounts meet the accounting and disclosure requirements contained in the Companies Act 2006 and the FREM, so far as those requirements are appropriate, and accounts' direction issued by the Secretary of State for Culture, Media and Sport in October 2002. The accounting policies contained in the FREM apply IFRS as adapted or interpreted for the public sector context. The National Lottery accounts direction issued by the Secretary of State specifically excludes the preparation of consolidated accounts and requires the use of commitment accounting for awards – this is a departure from accruals accounting. Copies of the Lottery distribution and grant-in-aid accounts' directions may be obtained from the Secretary to the Board, 7 Holbein Place, London SW1W 8NR.

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

The accounts have been prepared on a going concern basis because NHMF has been informed by DCMS that it has no plans to change the Lottery distribution arrangements for the heritage sector and so Trustees assume that they will continue to receive funding from the Lottery.

#### b) Non-current assets

Non-current assets are defined as those items purchased for the long-term use of NHMF and its Lottery distribution activities and where the total cost is above £2,000. Depreciation is provided on a straight-line basis on all non-current assets, including those held under finance leases, at rates calculated to write off the cost or valuation of each asset over its expected useful life. These lives are as follows:

Short-leasehold property	– the life of the lease;
Office equipment	– 4–10 years;
Office fittings	– 4–10 years;
Grant-assessment and other software	– up to 5 years.

No internally generated costs are capitalised.

#### c) Allocation of costs and segmental reporting

International Financial Reporting Standard 8 requires information to be provided on segmental reporting where this is relevant to the activities of the organisation. Where relevant, senior management would identify separate streams of activity and assign operating costs to them pro-rata based upon the level of grant awarded, unless there was a significant difference in the manner in which applications were processed, in which case ad hoc methods would be utilised. However, other than accounting separately for its Lottery distribution activities, which NHMF is required to do under its Lottery accounts' direction,

Trustees do not believe that their grant-in-aid or their Lottery distribution activities can be divided into separate segments.

NHMF incurs indirect costs which are shared between activities funded by grant-in-aid and activities funded by the National Lottery. NHMF is required to apportion these indirect costs in accordance with *Managing Public Money*, issued by the Treasury. This cost apportionment seeks to reflect the specific proportion of time and expenses committed to each fund. At the end of the financial year, the proportion of joint costs apportioned to HLF was 99% (2011–12: 99%).

d) Taxation

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

e) Pension

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

f) Leases

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

g) Balances at the NLDF

Balances held in the NLDF remain under the control of the Secretary of State for Culture, Media and Sport, and Trustees have no influence over how these sums are invested. The share of these balances attributable to the Trustees of NHMF is as shown in the accounts and, at the date of the Statement of Financial Position, has been certified by the Secretary of State for Culture, Media and Sport as being available for distribution by the Trustees in respect of current commitments. The fair value reserve is adjusted for any gain or loss on the revaluation of the NLDF balance reported to us by DCMS. The adjustment is disclosed in the Statement of Changes in Equity. Any profit or loss incurred by the NLDF on disposal of investments is added to the value of the NLDF.

h) Grant commitments

“Soft” commitments are as defined by the accounts’ direction of the Secretary of State for Culture, Media and Sport, issued in October 2002. They represent an agreement in principle of the Trustees to fund a scheme. They come in two types:

- 1) where the final decision to award a grant has been made, but there is not yet a signed contract with the grantee. When a grant contract is regarded as being in place, the commitment is described as “hard”.

- 2) where a first-round pass or a stage-one pass is given to the project. Whilst in these circumstances funding is subject to a second decision, for many of our grant programmes a second decision is highly likely to be positive and so it is prudent to recognise the first-round or stage-one pass as soft commitments at this stage.

Whether or not a first-round pass is recognised as a soft commitment depends upon the programme to which the application is made. Applications under the Heritage Grants and Parks for People programmes are not currently regarded as soft commitments at the time of the first-round pass. This is because applications under those programmes receive their initial decision at an earlier stage in the project cycle. Trustees reserve the right to reject the application when the fully worked-up application is received and consider the second round to be the real decision. As they expect to reject a proportion of applications at the second round, Trustees exceed their awards budget at the first round by an amount that correlates with their expectation of the value they will reject at the second round. Applications under other programmes are recognised as soft commitments where a first-round pass or stage-one pass is given to the project.

Soft de-commitments occur when a soft commitment is not converted into a hard commitment – normally because the grantee decides not to undertake their project. Hard de-commitments occur when the project being funded does not require all the money set aside for it under the contract. All grant commitments are payable immediately upon receipt of valid payment requests.

i) Loans

Trustees are entitled to make loans to heritage bodies under the Financial Direction of the Secretary of State for Culture, Media and Sport. Interest rates and repayment terms are at the discretion of Trustees.

## 2. Sundry income

	2012-13 £'000	2011-12 £'000
Repayment of grants	<b>66</b>	73

## 3. Staff costs and numbers

	2012-13 £'000	2011-12 £'000
Salaries	<b>7,961</b>	7,500
Employer's NI payments	<b>566</b>	545
Payments to pension scheme	<b>1,422</b>	1,353
Temporary staff costs	<b>144</b>	110
	<b>10,093</b>	9,508

The average number of employees working on Lottery distribution activities was as follows:

2012-13	Grant applications	Finance and corporate services	Strategy and business development	Communications	Total
Permanent staff	164	34	22	17	237
Secondees, contract staff and apprentices	12	2	2	3	19
<b>Total</b>	<b>176</b>	<b>36</b>	<b>24</b>	<b>20</b>	<b>256</b>

2011-12	Grant applications	Finance and corporate services	Strategy and business development	Communications	Total
Permanent staff	145	32	23	16	216
Seconded and contract staff	7	1	0	3	11
<b>Total</b>	<b>152</b>	<b>33</b>	<b>23</b>	<b>19</b>	<b>227</b>

Temporary and agency staff have not been included in the above figures as our systems do not allow for the collection and calculation of a full-time-equivalent figure.

#### 4. Operating deficit

The operating deficit is stated after charging the following:

	2012-13 £'000	2011-12 £'000
Auditor's remuneration	<b>39</b>	39
Payments under operating leases		
- leasehold premises	<b>1,055</b>	1,215
- hire of office equipment	<b>0</b>	16

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

	2012-13 £'000	2011-12 £'000
Accommodation	<b>1,738</b>	1,941
Postage and telephone	<b>472</b>	479
Office supplies, print and stationery	<b>505</b>	421
Travel, subsistence and hospitality – Trustees	<b>102</b>	95
Travel, subsistence and hospitality – staff	<b>378</b>	293
Professional fees – grant-related	<b>2,124</b>	1,817
Professional fees – non-grant-related	<b>1,157</b>	874
Communications	<b>745</b>	476
Office equipment	<b>310</b>	497
Staff training	<b>112</b>	131
Sundry expenses	<b>173</b>	112
	<b>7,816</b>	7,136

#### 5. Recharged costs

As mentioned in note 1 to these accounts, NHMF is required to disclose separately its Lottery distribution costs in the accounts of HLF. Many of the overhead costs incurred at the head office in London benefit both our grant-in-aid and Lottery distribution activities. At the end of the financial year, the proportion of joint costs apportioned to HLF was 99% (2011-12: 99%). All grant-in-aid activities take place at the head office at Holbein Place, London. The costs of operating all other offices are fully recharged to HLF.

#### 6. Pensions

Pension benefits are provided through the Civil Service pension arrangements – the PCSPS. Since 30 July 2007, new staff without any previous membership of PCSPS are able to join Nuvos, which is an index-linked defined benefit pension scheme. Pension age is 60 for members of classic, premium and classic plus and 65 for members of Nuvos.

Staff who joined NHMF before 30 July 2007, or who have qualifying previous PCSPS membership on joining since that date, remain in one of three statutory based 'final salary' defined benefit schemes (classic, classic plus and premium). The schemes are unfunded, with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, classic plus, premium and Nuvos are increased annually in line with pensions-increase legislation.

Employee contributions are salary-related and range between 1.5% and 3.9% of pensionable earnings for classic and 3.5% and 5.9% for premium, classic plus and Nuvos. Increases to employee contributions will apply from 1 April 2013. Benefits in classic accrue at the rate of  $\frac{1}{60}$ th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of  $\frac{1}{60}$ th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum). Classic plus is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly in the same way as in classic and benefits for service after that date worked out as in premium. In Nuvos, a member builds up a pension based on pensionable earnings during the period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is updated in line with pensions-increase legislation. In all cases members may opt to commute pension for a lump sum up to the limits set by the Finance Act 2004.

Members who joined NHMF from October 2002 could have opted for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution known as a Partnership Pension Account. The partnership pension account is a stakeholder pension arrangement with an employer contribution. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of three providers. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to PCSPS to cover the cost of centrally provided lump sum risk benefit cover (death in service and ill-health retirement). There are currently two members of staff with a partnership pension account.

No member of staff retired early on health grounds during 2012–13.

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

Although the schemes are defined benefit schemes, liability for payment of future benefits is a charge to the PCSPS. Departments, agencies and other bodies covered by the PCSPS meet the cost of pension cover provided for the staff they employ by payment of charges calculated on an accruing basis. For 2012–13, employer's contributions of £1,421,668 (2011–12: £1,363,419) were paid to the PCSPS at the rates set out in the table below. Employer contributions are to be reviewed every four years following a full scheme valuation by the scheme actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

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

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

Salary in 2012-13	% in 2012-13
£21,500 and under	16.7%
£21,501-£44,500	18.8%
£44,501-£74,500	21.8%
£74,501 and above	24.3%

## 7. Intangible fixed assets

	Website		Information technology		Total	
	2012-13 £'000	2011-12 £'000	2012-13 £'000	2011-12 £'000	2012-13 £'000	2011-12 £'000
Cost at start of year	250	250	1,405	1,354	1,655	1,604
Additions	0	0	61	51	61	51
<b>At end of year</b>	<b>250</b>	<b>250</b>	<b>1,466</b>	<b>1,405</b>	<b>1,716</b>	<b>1,655</b>
Amortisation at start of year	166	82	941	621	1,107	703
Charge for the year	84	84	456	320	540	404
<b>At end of year</b>	<b>250</b>	<b>166</b>	<b>1,397</b>	<b>941</b>	<b>1,647</b>	<b>1,107</b>
Net book value						
At start of year	84	168	464	733	548	901
<b>At end of year</b>	<b>0</b>	<b>84</b>	<b>69</b>	<b>464</b>	<b>69</b>	<b>548</b>

The capitalisation of information technology represents the development of electronic application forms and an application-assessment management system. The above figures represent costs invoiced to HLF by software developers. No internally generated costs have been capitalised. The assets have been amortised over their expected useful lives, which in almost all cases was the end of the period that our third strategic plan covers; i.e. the period to 31 March 2013. Our new strategic framework for 2013 to 2018, which was issued during the year, requires far less software development.

A review of the current cost values of intangible fixed assets, at 31 March 2013, revealed no material difference to historic cost values. Therefore, no adjustment has been made to reflect current cost values of intangible fixed assets.

## 8. Property, plant and equipment

	Short-leasehold property		IT and other equipment		Office fittings		Total	
	2012-13 £'000	2011-12 £'000	2012-13 £'000	2011-12 £'000	2012-13 £'000	2011-12 £'000	2012-13 £'000	2011-12 £'000
Cost at start of year	1,347	1,674	2,218	2,165	61	61	3,626	3,900
Additions	168	84	167	61	0	0	335	145
Disposals	(351)	(411)	(188)	(8)	0	0	(539)	(419)
<b>At end of year</b>	<b>1,164</b>	<b>1,347</b>	<b>2,197</b>	<b>2,218</b>	<b>61</b>	<b>61</b>	<b>3,422</b>	<b>3,626</b>
Depreciation at start of year	927	1,227	1,623	1,432	59	59	2,609	2,718
Charge for the year	90	111	165	199	1	0	256	310
Adjustment on disposal	(351)	(411)	(188)	(8)	0	0	(539)	(419)
<b>At end of year</b>	<b>666</b>	<b>927</b>	<b>1,600</b>	<b>1,623</b>	<b>60</b>	<b>59</b>	<b>2,326</b>	<b>2,609</b>
Net book value								
At start of year	420	447	595	733	2	2	1,017	1,182
<b>At end of year</b>	<b>498</b>	<b>420</b>	<b>597</b>	<b>595</b>	<b>1</b>	<b>2</b>	<b>1,096</b>	<b>1,017</b>

The Trustees have considered the current cost values of property, plant and equipment. A review of the current cost values at 31 March 2013 revealed no material difference to historic cost values. Therefore, no adjustment has been made to reflect current cost values of property, plant and equipment. The value of property, plant and equipment represents a proportionate split of the assets used by both NHMF's grant-in-aid and its Lottery distribution activities. This split is currently 99% Lottery and 1% grant-in-aid (see note 5).

#### Finance leases

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

	2012-13 £'000	2011-12 £'000
IT and other equipment		
Cost at start of year	160	155
Additions	0	5
<b>At end of year</b>	<b>160</b>	<b>160</b>
Depreciation at start of year	125	78
Charge for the year	16	47
<b>At end of year</b>	<b>141</b>	<b>125</b>
Net book value		
At start of year	35	77
<b>At end of year</b>	<b>19</b>	<b>35</b>

Obligations under finance leases are:

	2012-13 £'000	2011-12 £'000
IT and other equipment		
Amounts for leases expiring in one year	9	21
Amounts for leases expiring in years two to five	10	14
	<b>19</b>	<b>35</b>

These obligations are included in payables (see note 11).

#### 9. Trade and other receivables

	2012-13 £'000	2011-12 £'000
Prepayments and accrued income	4,237	7,202
Loan to heritage organisation	0	2,300
Other receivables	22	11
Staff advances	44	44
	<b>4,303</b>	<b>9,557</b>

In January 2012, HLF provided an interest-free loan of £2,300,000 to the Cutty Sark Trust. This was repaid in September 2012.

There were no sums due in more than one year (2011-12: £0).

Of the above sums, £3,599,000 was owed by central government bodies. At the year end, 51 members of staff had outstanding payroll advances (at 31 March 2012 there were 50).

## 10. Investments

Movement in balances at the NLDF:

	2012-13 £'000	2011-12 £'000
Current cost at start of year	375,270	367,218
Income received from the National Lottery	387,150	301,663
Funds drawn down by HLF	(268,952)	(255,780)
Funds transferred to the Olympic Lottery Distribution Fund	(20,208)	(43,388)
Investment return	2,071	2,171
Unrealised profit on investment	0	3,386
<b>Current cost at end of year</b>	<b>475,331</b>	<b>375,270</b>

There is no liability to taxation on gains realised by NHMF. Investment of this money is carried out by DCMS, which delegates management to the Commissioners for the Reduction of the National Debt, who add their return to the overall balance held. Trustees of NHMF have no control over investment policy. The statement of accounting policies contains further information on this matter.

## 11. Payables: amounts falling due in one year

	2012-13 £'000	2011-12 £'000
Operating payables	604	370
Other payables including taxation and social security	364	323
Accruals and deferred income	1,670	1,663
	<b>2,638</b>	<b>2,356</b>

None of the liabilities of HLF was secured. The operating and other payables balances can be analysed as follows:

	2012-13 £'000	2011-12 £'000
Balances owing to central government	364	323
Balances owing to local authorities	14	0
Balances owing to public corporations	0	0
Balances external to government	590	370
	<b>968</b>	<b>693</b>

## 12. Grant commitments

Hard commitments

	2012-13 £'000	2011-12 £'000
Brought forward at start of year	625,940	554,485
Transfers from soft commitments	370,677	311,338
De-commitments	(7,046)	(6,317)
Commitments paid	(249,354)	(233,566)
<b>Carried forward at end of year</b>	<b>740,217</b>	<b>625,940</b>

### Soft commitments

	2012-13 £'000	2011-12 £'000
Brought forward at start of year	74,696	110,094
Soft commitments made	398,546	288,309
Soft de-commitments	(1,858)	(12,369)
Transfers to hard commitments	(370,677)	(311,338)
<b>Balance carried forward at end of year</b>	<b>100,707</b>	<b>74,696</b>

The balance at the year end represents amounts likely to be paid to applicants in the following periods:

### Hard commitments

	2012-13 £'000	2011-12 £'000
In one year	296,087	262,895
In two to five years	444,130	363,045
In more than five years	0	0
	<b>740,217</b>	<b>625,940</b>

The hard commitment balance at the year end represents amounts owing as follows:

	2012-13 £'000	2011-12 £'000
Balances owing to central government	98,630	59,106
Balances owing to local authorities	273,317	272,230
Balances owing to public corporations	203	1,087
Balances owing to NHS trusts	5	40
Balances external to government	368,062	293,477
	<b>740,217</b>	<b>625,940</b>

## 13. Commitments

The total outstanding commitments incurred by HLF under operating leases are as follows:

	2012-13 £'000	2011-12 £'000
<b>Short-leasehold property</b>		
Expiring in one year	1	75
Expiring in years two to five	265	312
Expiring thereafter	10,611	10,452
	<b>10,877</b>	<b>10,839</b>

On 24 May 2011, the Committee on Climate Change (CCC) signed an underlease for most of the first floor of our head office at 7 Holbein Place, London. This underlease was for approximately 13 years and will result in rental payments to NHMF totalling £1.7million – a small part of which will be allocated to NHMF's non-Lottery distribution activities. The expected receipts from CCC have not been deducted from the commitments disclosed in the above table.

In 2012-13, NHMF signed a number of leases and similar documents, to replace or renew existing leases for some of our regional and country offices. On 30 April 2012, we signed a memorandum of terms of understanding with DCMS for a 3 year occupation of office space in Birmingham with outstanding commitments at the year end of £56,828. On 21 June 2012, we signed a lease with Marketing Manchester for 70 months with outstanding commitments

at the year end of £211,500. On 25 July, we signed a ten year lease with Neil Humphries for office space in Cardiff with outstanding commitments at the year end of £358,400. On 1 August, we signed a one-year lease with Town Centre Car Parks Limited in Cardiff with outstanding commitments at the year end of £864. On 7 September, we renewed a 10 year lease with Britannia Invest A/S for office space in Newcastle with outstanding commitments at the year end of £431,605. On 25 October, we signed a 10 year lease for office space in Nottingham with outstanding commitments at the year end of £200,700.

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

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

#### 14. Notes to the Statement of Cash Flows

##### a) Reconciliation of operating deficit to cash inflow from operating activities

	2012-13 £'000	2011-12 £'000
Operating deficit	<b>(13,200)</b>	(61,801)
Add back non-cash items:		
– depreciation	<b>796</b>	714
– loss on disposal of intangible fixed assets and property, plant and equipment	<b>0</b>	0
– decrease in other provisions	<b>(0)</b>	(35)
– movement in fair value reserve	<b>0</b>	3,386
– increase in grant commitment reserve	<b>114,277</b>	71,455
– increase in balance at NLDF	<b>(100,061)</b>	(8,052)
Decrease/(increase) in non-interest receivables	<b>5,254</b>	(5,405)
Increase in non-capital payables	<b>282</b>	47
Net cash inflow from operating activities	<b>7,348</b>	309

##### b) Capital expenditure

	2012-13 £'000	2011-12 £'000
Payments to acquire intangible fixed assets	<b>61</b>	51
Payments to acquire property, plant and equipment	<b>335</b>	145
	<b>396</b>	196

##### c) Analysis of changes in net funds

	1 April 2012 £'000	Cash flows £'000	31 March 2013 £'000
Cash at bank	2,960	6,952	<b>9,912</b>

#### 15. Related-party transactions

NHMF is a non-departmental public body sponsored by DCMS. DCMS is regarded as a related party. During the year, NHMF (including its Lottery distribution activities) has had various material transactions, other than grant awards, with DCMS itself and with two entities for which DCMS is regarded as the sponsor department – the Big Lottery Fund and English Heritage.

During the year, NHMF started running the Lottery grant programme, Catalyst Endowments. DCMS agreed to contribute £15million towards the value of awards made to organisations based in England. During the year, HLF awarded grants in England to a value of £25.5million. During 2012–13, we paid £6.1million on behalf of DCMS and, at the year end, DCMS owed us £894,456, which was paid on 3 April 2013. We also signed a memorandum of terms of understanding with DCMS in 2012–13. This was to provide our Birmingham office with accommodation for three years ending 31 March 2015. The total expected spend under the agreement is £68,667 and there was nothing owed at 31 March 2013.

The Big Lottery Fund contributed towards the grants made under our Parks for People programme and also towards the operating costs for that programme. At the year end, the Big Lottery Fund owed HLF £2,677,707, representing £63,631 for operating costs and £2,614,076 for their share of grant payments. English Heritage carried out two pieces of research on our behalf; no money was owed at the year end. There have also been material transactions with the National Assembly of Wales as we use Cadw to provide expert advice and monitoring.

In May 2011, the Committee on Climate Change (CCC) signed an underlease for most of the first floor of NHMF's offices, at 7 Holbein Place, London. CCC is a non-departmental public body which is jointly-sponsored by the Department of Energy and Climate Change, DEFRA, the Scottish Government, the Welsh Assembly Government and the Northern Ireland Executive. This underlease is for approximately 13 years and will result in rental payments to NHMF totalling £1.7million. In addition, CCC will make contributions towards the cost of running Holbein Place of approximately £78,000 per annum at 2012–13 price levels. At 31 March 2013, there was £9,000 owed for service charges.

As set out below, Trustees of NHMF had interests in bodies to which NHMF made Lottery grants. Similarly, members of the country and regional committees had interests in projects to which their committee made Lottery grants or recommendations to the board of Trustees. Trustees and committee members are required to declare any connection with applicants at the start of each meeting and absent themselves from any part of that meeting where that grant application is discussed. They take no part in the decision as to whether a grant is awarded or any subsequent decision made about that grant. There are also strict rules on the circumstances in which Trustees and committee members can accept paid work from a grantee. Therefore, Trustees are satisfied that in no case did the individuals have an influence on the decision-making process.

In 2012–13, there will also have been related-party transactions, in the form of grant payments, relating to awards made and disclosed in previous years. As those related-party transactions have been previously disclosed, they are not repeated here.

#### Board of Trustees

##### *Ashmolean Museum*

A grant of £5,999,300 – Edouard Manet's Portrait of Mademoiselle Claus.

A grant increase of £136,900 to make a total grant of £547,400 – Keeping Heritage Alive!

Hilary Lade declared an interest as she was a member of the Board of Visitors at the Ashmolean Museum.

##### *Carmarthenshire Heritage Regeneration Trust*

A grant increase of £150,000 to make a total grant of £3,440,000 – Llanelly House.

Manon Williams declared an interest as the project received funding from Tourism and Marketing for Wales at the Welsh Government, of which she was the CEO.

#### *Council For British Archaeology*

A grant increase of £532,600 to make a total grant of £1,137,500

– Community Archaeology Bursary programme.

Richard Morris was Vice-President of the Council for British Archaeology.

#### *Dartmoor National Park Authority*

A grant of £100,000 and a first-round pass of £1,900,000 – Moor than Meets the Eye

– the story of people and landscape over 4,000 years on Dartmoor Scheme.

Doug Hulyer declared an interest in the project as Natural England, of which he was a board member, were involved with the project and Dartmoor was within his portfolio of responsibility at Natural England.

#### *Garden Museum*

A grant of £273,300 and a first-round pass of £3,126,700 – Garden Museum Development.

Christopher Woodward declared an interest as he was Director of the Museum.

#### *Imperial War Museum*

A grant of £4,500,000 – Regeneration: First World War Centenary Project.

Christopher Woodward declared an interest in the project as the Garden Museum, of which he was Director, was planning a joint exhibition with the Imperial War Museum to coincide with the project opening.

#### *National Portrait Gallery*

A grant of £1,000,000 – National Portrait Gallery Portrait Fund. This award was split between NHMF and DCMS – NHMF's share was £411,765.

Kim Evans was a trustee of the National Portrait Gallery.

#### *Postal Heritage Trust*

A grant of £250,000 and a first-round pass of £4,000,000

– British Postal Museum & Archive New Centre Project.

Angela Dean declared an interest as she was a member of the applicant's Finance Committee.

#### *Tate Gallery*

A grant increase of £236,200 to make a total grant of £924,800 – The Museum and its Future.

Virginia Tandy chaired the Artists' Rooms steering group for Tate.

#### *Wildlife Trust for Bedfordshire, Cambridgeshire, Northamptonshire and Peterborough*

A grant increase of £1,897,700 to make a total grant of £9,101,700

– Restoring Our Fenland Heritage.

Doug Hulyer declared an interest in his capacity as a member of the Great Fen Development Group.

#### *Committee members*

##### *Brecks Partnership*

A grant of £78,500 and a first-round pass of £1,416,700 – Breaking New Ground.

Anne Mason declared an interest as she had been commissioned by the applicant to develop the application.

##### *Churches Conservation Trust*

A grant of £2,304,500 – New Life for St Nicholas' Chapel.

Anne Mason had been employed by the Churches Conservation Trust and had been involved with the development of the application.

*Society for the Protection of Ancient Buildings*

A grant of £907,400 – Maintenance Co-operative Movement.

Sara Crofts declared an interest as an employee of the Society for the Protection of Ancient Buildings.

*Leicester City Council*

A grant of £44,700 and a first-round pass of £1,055,700

– Living and Working in the Old Town, Leicester.

Gail Pringle declared an interest as an employee of Leicester City Council.

*London Boroughs of Ealing and Hounslow*

A grant of £321,000 and a first-round pass of £4,311,000 – Gunnersbury Park.

A grant of £386,400 and a first-round pass of £3,425,000

– Gunnersbury Park Museum Regeneration.

Hilary Carty declared an interest as she was in the process of being contracted to support the development of the London Borough of Ealing's Cultural Strategy.

*Royal National Theatre*

A grant of £2,500,000 – National Theatre Future.

Jon Sheaff declared an interest in the project as his wife worked for the National Theatre's Education Department and had worked on the bid.

*Royal Botanic Gardens, Kew*

A grant of £14,690,600 – Temperate House.

Jennifer Ullman declared an interest as a Trustee of the Royal Botanic Gardens.

*Northumberland Wildlife Trust*

A grant of £285,900 – Rescued from the Sea: Hauxley Community Archaeology Project.

Chris Mullin declared an interest as he was the President of the Northumberland Wildlife Trust.

*Tees Valley Wildlife Trust*

A grant of £11,200 and a first-round pass of £480,700 – Tees Valley Community Green.

Susan Antrobus reported that she was an employee of Tees Valley Community Green and had contributed to the application.

*Manchester Historic Buildings Trust*

A grant of £1,851,800 – Gaskell House.

Virginia Tandy declared an interest as a former director of Manchester City Council.

*Manchester City Council*

A grant of £1,550,000 – Archives+ at Manchester Central Library.

Virginia Tandy declared an interest as a former director of Manchester City Council.

*Lancashire Wildlife Trust*

A grant of £28,800 and a first-round pass of £584,000 – the Biodiverse Society.

Steve Garland declared an interest as a Trustee of the Lancashire Wildlife Trust.

*Daniel Adamson Preservation Society*

A grant of £37,300 and a first-round pass of £2,988,000

– Daniel Adamson Maritime Heritage Project.

Susan Williams declared an interest as one of the partnership funders (Peel Ports) were a contributor to the Atlantic Gateway with which she had a connection.

*Bolton Museum and Archive Service*

A grant of £115,300 and a first-round pass of £1,822,800 – Bolton Egyptology Gallery.  
Steve Garland declared an interest as the former Head of Bolton Museum and Archive Service.

*Imperial War Museum North*

A grant of £6,200 and a first-round pass of £528,700  
– Improving Futures – Volunteering for Wellbeing.  
Virginia Tandy declared an interest as she had been employed as a consultant by the Imperial War Museum North.

*Cree Valley Community Woodlands Trust*

A grant of £199,500 – Cree Valley Woodland Heritage.  
Simon Pepper had an interest as Scottish Natural Heritage, of which he was a board member, was a project partner.

*Archaeology for Communities in the Highlands*

A grant of £7,400 and a first-round pass of £171,000 – Telford's Highland Heritage.  
Simon Pepper had an interest as Scottish Natural Heritage, of which he was a board member, was a project partner.

*Friends of Woking Palace*

A development grant of £12,300 and a full grant of £306,400 – Woking Palace and its Park.  
Marilyn Scott declared an interest as a member of the applicant's management committee.  
She also noted that her organisation, Woking Lightbox, would benefit from the project.

*Chatham Historic Dockyard Trust*

A grant of £116,300 and a first-round pass of £4,383,700 – Command of the Oceans.  
Bill Ferris declared an interest as the Chief Executive of Chatham Historic Dockyard Trust.

*Milton Keynes Council*

A grant of £400,700 and a first-round pass of £1,480,000  
– A City Museum for Milton Keynes.  
Marilyn Scott declared an interest as she had undertaken advisory work relating to this application.

*Dartmoor National Park Authority*

A grant of £100,000 and a first-round pass of £1,900,000 – Moor than Meets the Eye.  
Tony Richardson declared an interest as his employer, the Royal Society for the Protection of Birds, was a partnership funder. He had also signed a letter of support for the scheme.

*Royal Society for the Protection of Birds*

A grant of £269,100 – Isles of Scilly Seabird Recovery Project.  
Tony Richardson declared an interest as he was employed by the Royal Society for the Protection of Birds and had been involved in the project.

*National Trust*

A grant of £2,500,000 – Saving Castle Drogo.  
Simon Timms reported an interest in Saving Castle Drogo as, although no longer a Trustee of the National Trust, he had direct involvement in the planning of the project.

*Dorset County Council in partnership with the National Trust*

A grant of £495,000 – Hardy's Birthplace.

Simon Timms declared an interest in Hardy's Birthplace as he had been a member of the National Trust's Board until August 2010 and of its Council until November 2011.

*The Bristol Building Preservation Trust in partnership with Ashton Park School and Bristol City Council*

A grant of £32,200 and a first-round pass of £466,100 – Lower Lodge Gateway Project.

Julie Finch reported that Bristol City Council, her employer, was a joint applicant.

*Exmoor National Parks Authority*

A grant of £249,800 – Lynmouth Pavilion

Doug Hulyer as a board member of Natural England and linked to Exmoor National Park, declared an interest.

*Plymouth City Museum and Art Gallery*

A grant of £9,900 and a first round pass of £403,600

– Reynolds Portrait & Sketchbook Acquisition.

Hilary Bracegirdle declared that the project lead was a personal friend and the applicant body was a funder for the Royal Institution of Cornwall of which she was Director.

*Wildscreen*

A grant of £40,600 and a first-round pass of £616,700 – Arkive – Bringing Nature Into Focus.

Tony Richardson declared an interest as his employers, the Royal Society for the Protection of Birds, were involved in the project.

*Tate, in partnership with Cornwall County Council*

A grant of £2,780,400 – Tate St Ives.

Tamsin Daniel declared an interest in Tate St Ives as Cornwall County Council owned the building and she was part of their project team.

*Montgomeryshire Wildlife Trust*

A grant of £928,000 – Dyfi 360 Landscape – For People And Wildlife.

Madeleine Havard declared an interest as she was a member of the project selection board for the Countryside Council for Wales.

*City and County of Swansea*

A grant of £40,000 and a first-round pass of £760,000 – Dylan Thomas Exhibition.

Manon Williams declared an interest arising from her role as the Welsh Government's Chief Executive of Tourism and Marketing for Wales who had had committed funding to the exhibition.

*Birmingham Museum & Art Gallery*

A grant of £675,000 – Portrait of Dr John Ash.

Ian Grosvenor declared an interest because until recently his partner had been employed by the applicant.

*National Trust*

A grant of £1,800,000 – Croome Recreated.

Harriet Devlin declared an interest in the project as her husband was employed by the National Trust.

### *University of Birmingham*

A grant of £129,600 and a first-round pass of £1,507,500  
– Lapworth Museum of Geology Redevelopment Project.

Ian Grosvenor declared an interest as he was an employee of the University of Birmingham.

### *Worcestershire County Council Archive and Archaeology Service*

A grant of £11,500 and a first-round pass of £310,500 – Worcestershire World War One Hundred.  
Kathy Gee declared an interest as she was a trustee of Avoncroft Museum of Buildings, one of the delivery partners.

### *Worcestershire Building Preservation Trust*

A grant of £730,000 – Weavers Cottages.

Alan Taylor declared an interest as he had worked with the applicant through his role at English Heritage.

### *Hartlebury Castle Preservation Trust*

A grant of £413,700 and a first-round pass of £4,575,100 – Hartlebury Castle.

Alan Taylor declared an interest through his role at English Heritage where he had discussed the project with applicant.

### *Queen Mary's School, Topcliffe*

A grant of £8,200 – Baldersby Park

Gary Verity declared an interest as his daughter is a pupil at the school.

### *Sheffield Industrial Museums Trust*

A grant of £895,700 – Abbeydale Industrial Hamlet.

John Hamshere declared an interest as the Chief Executive of the applicant.

### Staff

#### *Royal Botanic Gardens of Edinburgh*

A grant of £1,700 and a first-round pass of £708,700 – the Botanic Cottage Project.

Colin McLean (Head of HLF Scotland) reported that his wife was a Trustee of the Royal Botanic Gardens of Edinburgh.

#### *City Church Dundee*

A grant of £8,500 and a first-round pass of £124,600 – The Friary, Dundee.

Lucy Casot, Casework Manager, declared an interest in The Friary, Dundee, as her sister had prepared the application.

## 16. Financial instruments

Full disclosure under IFRS 7, 'Financial Instruments: Disclosures', is in the Management Commentary.

## 17. Fair value reserve

	2012-13 £'000	2011-12 £'000
At start of year	3,386	(352)
Realisation of revaluation (gain)/loss on NLDF balance	(3,386)	352
Year-end revaluation gain/(loss) on NLDF balance	0	3,386
<b>At end of year</b>	<b>0</b>	<b>3,386</b>

The reserve relates to the difference between book cost and market value of the balance at the NLDF (see note 10). The difference between book and market value of intangible fixed assets and property, plant and equipment (see notes 7 and 8) is not material.

## 18. Provision

	2012-13 £'000	2011-12 £'000
At start of year	0	35
Provision created	0	0
Provision utilised	(0)	(35)
<b>At end of year</b>	<b>0</b>	<b>0</b>

In May 2011, we received a claim from a former employee who had retired on health grounds in 2009–10. We created a provision against any payment we might make to end the claim. A payment of £35,000 in full settlement of the claim was made on 31 May 2011.

## 19. Statement of losses

HLF made losses through the write-off of grants totalling £105,550 in the year (2011–12: £559,343). There were five write-offs in total with none over £100,000 (2011–12: one). Since the year end, we have identified transactions in nine projects that we supported over the past few years where we have strong concerns as to their validity. When we have had further time to investigate the matter thoroughly, we may have to write off payments on these projects of up to £170,000.

# Policy Directions

The government issues HLF with policy directions under the 1993 Act. The current directions took effect in 2008. As before, these are matters to be taken into account when distributing money.

At the same time, the Welsh Assembly Government issued policy directions related to money distributed in Wales, and in 2011 the Scottish Government issued directions for money distributed in Scotland. These complement the UK-wide directions and are reproduced in full on pages 55 to 57.

## a) Needs of the heritage

“HLF’s assessment of the needs of the national heritage and their priorities for addressing them.”

On 5 July 2012 we launched the new strategic framework that will guide our funding for the years 2013–2018, *A lasting difference for heritage and people*. The principles and themes underlying changes to our strategy, programmes and targeted initiatives were shaped by the strategic consultation held in 2011, to which over 2000 people, from the heritage sector and the general public, responded.

The strategic framework is our response to support the sector in a challenging operating environment, with a strong focus on building resilience, contributing to growth, strengthening communities and nurturing skills. At the same time as introducing new initiatives in these areas, we have responded to the support expressed in our consultation for continuing our widely valued targeted programmes for parks, landscapes, townscapes, places of worship and young people. We are also addressing heritage needs as determined by the sector and our applicants by committing around three-quarters of our funding to open programmes for any type of heritage project, with grants ranging from £3,000 to over £5million. And we are taking forward plans for leading the debate about the role and value of heritage through continuing to create occasions for dialogue with people who care about heritage and whose views we value in ensuring we make best use of Lottery money.

Demand for Lottery funding for heritage has remained extremely buoyant throughout the year at all levels of grant. As a result of continued strong ticket sales we were able to commit £411.8million in awards, against applications worth £872,102,657 (up 2.7% on 2011–12) and the highest demand for funding since 1998.

## b) Public involvement

“The need to involve the public and local communities in making policies, setting priorities and distributing money.”

In developing our funding strategies, we regularly consult customers and the Lottery-playing public for an end-user perspective on our work, to inform policy and practice, and increase public understanding of what we do. Our new strategic framework has been shaped by extensive consultation and our new application materials and processes were tested with customers.

We have continued our policy of open recruitment to our committees in all areas of England, Scotland, Northern Ireland and Wales, which make decisions on grants between £100,000 and £2million. In 2012–13 we recruited 13 new committee members who live in the areas they serve.

We implemented the final year of our Youth Participation strategy under our third strategic plan. In 2012–13 we offered young people the opportunity to get involved in our day-to-day business in a variety of ways, including as ambassadors for our Young Roots programme at a Parliamentary event and as field workers on two youth-focused research and evaluation projects.

## c) Access and participation

“The need to increase access and participation for those who do not currently benefit from the heritage opportunities available in the United Kingdom.”

Helping “more people, and a wider range of people, to take an active part in and make decisions about their heritage” remained a priority this year, as reflected in the aims of

our strategic plan. We have produced two focused publications to demonstrate best practice in reaching new audiences, and through the work of our local development teams, general guidance and new case studies, we have continued to encourage all of our applicants to make their projects as inclusive as possible. As in previous years we have funded a wide range of museums, buildings, landscapes and visitor attractions; our investment in improved facilities, cafes, pathways, websites and marketing is proven to attract new audiences. Our research tells us that over 60% of residents living close to our projects think the investment has made the area “a better place to live”.

In July we changed our digital policy to support projects that are delivered entirely online. Through case studies, briefings and conference presentations we have encouraged the heritage sector to apply for funding to reach more and wider audiences in the digital realm. As a direct result and with our investment more people have started to discover heritage sites, stories and collections and shared their own experience, time or learning online.

In order to widen access to our funding even further, we ran All Our Stories in the summer, a pilot small-grants programme which has helped inform our future work with communities. Run in collaboration with the BBC and the Arts and Humanities Research Council, the programme attracted more than 70% first-time applicants. The initiative was so successful in increasing access to our funding that we invested £4.5million, more than four times the original budget.

We have retained the corporate goal in our business plan to increase diversity in our grant-giving, and have seen the number of projects led by organisations representing the interests of black, Asian and minority ethnic (BAME) organisations increase over the past year. Since 1994 we have awarded more than £170million to over 3,100 projects that explore and celebrate the cultural diversity of the UK; 55% of these projects were

led by BAME groups. Over the past 12 months we have continued to create platforms for these and other grantees to share their experiences and good practice with peers and HLF staff in order to generate more high-quality applications, including through a session at our staff conference. We have monitored our progress in working with under-represented communities through an internal Inclusion Practice Group, which draws staff from across the UK and promotes research, external practice and training. This group helps ensure that our corporate communications reflect the diversity of the UK population and the breadth of heritage projects that we fund.

#### d) Children and young people

“The need to inspire children and young people, awakening their interest and involvement in the activities covered by the heritage good cause.”

Children and young people are beneficiaries of the vast majority of the projects we fund, whether involved in family visits to heritage sites, as participants in learning and activity programmes, or as volunteers. Many projects, for example in museums or wildlife sites, have continued to target families as a key audience this year, and huge numbers of school children have benefitted from learning outside the classroom as a result of HLF-funded projects. Since 1994, we have funded over 1,200 heritage education posts and the creation of more than 700 spaces for learning, including indoor and outdoor classrooms, lecture theatres and pond-dipping areas. We are keen to encourage more children, whatever their background, to engage with heritage. In support of the Government’s review of Cultural Education in England, we have been working this year as part of the Cultural Education Partnership Group with Arts Council England, English Heritage and the British Film Institute to pilot new joined-up ways of working in three areas of England.

Our Young Roots funding programme is specifically designed for young people aged

11–25 to take part in creative and engaging activities exploring heritage. Since 2002, we have made over 1,400 Young Roots awards, and, in this 10th anniversary year of the programme, received a record number of applications, awarding 152 grants. These projects engage a wide range of young people, including those living in rural communities and urban housing estates, disabled young people and those not in education, employment or training. In the summer we published an evaluation of the programme, looking at the impact of the Young Roots projects between 2008 and 2011. Findings clearly show the benefits for individual young participants of being involved but also for the grantee organisations, their partners and the communities where the projects take place. Young people have learned important new skills. They have increased their awareness, understanding and appreciation of heritage, their own sense of identity and the area where they live. The evaluators report that in some cases this has led to increased community integration between generations.

#### e) Communities

“The need to foster initiatives which bring people together, enrich the public realm and strengthen communities.”

Our view of heritage remains broad and progressive. Through our open programmes this year we have funded a wide range of communities – place-based geographic communities across the UK, communities with a shared cultural or social background, and communities of interest, ranging from butterfly experts to steam-train enthusiasts. Support for communities is an important element of our new funding strategy, and moving forward our outcomes framework encourages a strong focus on grantees building resilience and creating better places to live, work and visit.

We believe that understanding, valuing and sharing our diverse histories can change lives, bring people together and provide the foundation of a confident, modern

society. This has perhaps been most clearly demonstrated this year through our All Our Stories initiative, which offered grants under £10,000. Community groups were encouraged to propose activities that help people explore, share and celebrate their local heritage; following high demand we were pleased to support over 500 projects with a geographical spread that ranges from Penzance to the Islands of Orkney.

Following on from the success of All Our Stories, we have launched a new ongoing small-grants programme, Sharing Heritage, with a simple application procedure to encourage more community groups to explore and share their heritage. In addition we have increased the maximum grant available under our single-round open programme Our Heritage to £100,000 to enable more people to benefit from a shorter application process and meet emerging needs in community heritage. This year, too, as part of a package of activity announced by David Cameron in November, we have committed to the development of a grant programme dedicated to the commemoration of the forthcoming Centenary of the First World War. With a commitment of £1million per year over six years the programme will offer grants of between £3,000 and £10,000 to enable communities to discover and explore their local heritage relating to the conflict and its legacy. The programme will launch in May 2013.

#### f) Volunteers

“The need to support volunteers, and encourage volunteering activity, in heritage.”

Volunteering continues to be a part of the majority of projects that we fund and, this year, with ongoing cuts to other sources of public money, we have seen an increasing role for volunteers in managing and sustaining heritage. We have seen more applications involving asset transfer from the public to the voluntary sector, and have funded volunteer-run organisations and organisations heavily reliant on volunteer contributions to deliver heritage projects. We have

responded to this trend in our new strategic framework by offering start-up grants for the first time. Grants of up to £10,000 will be available to community groups taking responsibility for heritage, to create the right constitutional framework and arrive at a strategy for managing the heritage.

Recognising the tremendous importance of volunteered time to the heritage sector, this is one of the outcomes underpinning our future funding strategy. Moreover, we continue to recognise and value volunteer labour in our application process, allowing applicants to cost volunteer time as in-kind contribution to projects. Our guidance and application process set out clear advice on volunteer recruitment, management, development and the importance of celebrating their contribution. Drawing on our social impact research, which points to the benefits of heritage volunteering for personal wellbeing, skills development and social cohesion, our case studies continue to highlight the achievements and benefits of projects where volunteers from diverse backgrounds make a lasting difference to their communities.

### **g) Skills**

“The need to encourage innovation and excellence and help people to develop their skills.”

We have continued to invest in targeted work-based training to stimulate economic growth and to ensure the sector is sustained in the longer term. Our Trustees this year invested a further £13.6million in our skills programmes after soliciting applications from grantees already delivering training-focused projects; as a result, 700 training placements could be delivered quickly on the ground across the UK. In addition we launched a second Skills for the Future programme. Demand has been high: 500 people attended pre-application workshops and applications amounting to £65million were received.

Meanwhile, this year, the 64 grantees funded through our previous rounds of Skills for the Future and Training Bursary programmes

continued to deliver high-quality outcomes for individual trainees and the sector as a whole. The Training Bursary programme has provided nearly 900 conservation-based training placements, with over 79% of the trainees achieving jobs in the heritage sector. To date, over 630 placements have been created through the Skills for the Future programme in a wide range of heritage skills, including using digital media and managing climate change; evaluation is ongoing but we know that around 60% of the trainees are in heritage-related jobs or further training as a result of our investment, despite the challenging economic climate. Importantly for the sustainability of the sector, these programmes have increased the number of heritage qualifications available to the sector and ensured there are more qualified assessors to help mainstream and sustain heritage training in the longer term.

Beyond our targeted skills initiatives, we encourage and fund skills-development for staff and volunteers involved in all of our projects to ensure projects are delivered to the highest standard. This is reflected in the outcome for skills included in our new strategic framework; our future investment will see individuals gaining skills relevant to ensuring heritage is better looked after, managed, understood and shared.

### **h) Public value**

“The need to ensure that money is distributed for projects which promote public value and which are not intended primarily for private gain.”

Our Lottery philosophy is grounded in funding what people value, and our assessment of applications takes account of the benefits projects will deliver for both heritage and people, and wider benefits such as social and environmental impacts. We give priority to not-for-profit organisations and since 2002 over half of our funding by value (52%) has gone to voluntary and church organisations.

In our new strategic framework we have responded to public support for giving

modest additional help to heritage in private ownership through offering funding under Our Heritage (grants £10,000 to £100,000) to private owners of heritage assets to undertake conservation and work to engage the public with their heritage. To ensure the public benefits outweigh any private gain, we expect these projects to achieve quality outcomes for heritage and people as well as a step-change in public access and engagement with heritage, and to demonstrate clear public enthusiasm and support for the project and a genuine need for Lottery investment.

#### **i) Sustainable development**

“The need to further the objectives of sustainable development.”

We have had a stronger focus on environmental impact and the sustainable use of resources since 2008, when we introduced new guidance on these issues for applicants. Applicants must tell us how they will address a range of resource-use issues, including energy efficiency, renewable energy, water, building materials, waste, soil, sustainable timber procurement, biodiversity and visitor transport. We are currently evaluating the impact of that guidance, in terms of how applicants have responded and the actual impacts of projects in delivery.

In July 2012 we further strengthened our approach in this area by requiring all applicants submitting applications for funding of more than £2million to undertake a carbon-footprint assessment. This assessment is then incorporated in the overall process of project appraisal. To our knowledge, we are the first major UK funder to make carbon-impact assessment a part of funding decisions.

#### **j) Economic and social deprivation**

“The desirability of reducing economic and social deprivation and of ensuring that all areas of the United Kingdom have access to the money distributed.”

Just under half (44%) of all HLF funding has been committed in the 25% most deprived local-authority areas of the UK (based on the most recent indices of multiple deprivation for England, Wales, Scotland and Northern Ireland). This proportion is unchanged from last year.

We have development teams in our local offices across Scotland, Wales, Northern Ireland and England, to encourage good-quality applications from areas that have been less well represented in our funding to date. Our development teams are now beginning to work in priority areas identified for the strategic framework period from 2013 to 2018.

As a measure of equitable spread of funding we review the number of local authorities which have received significantly less than the UK average, in terms of the per capita value of grant awards. The number of local authorities where the value of per capita grant awards is less than a quarter of the UK average is now down to 62 (15%).

#### **k) Joint working**

“The desirability of working jointly with other organisations, including other distributors, where this is an effective means of delivering the Fund’s strategy.”

Through the Lottery Forum and National Lottery Promotions Unit, we continue to work with other Lottery distributors on joint initiatives and to ensure close coordination of activities.

In the past year we have worked in collaboration with the BBC, the Arts and Humanities Research Council and the Media Trust to deliver All Our Stories. With the Arts Council England and DCMS, we delivered the first batch of Catalyst endowments, part of a £100million investment to boost private giving to heritage and the arts, helping cultural organisations to diversify their income streams and access more funding from private sources.

We continue to work in partnership with the Big Lottery Fund (BIG) to deliver our Parks for People programme in England, and with BIG and NESTA held a sector-wide convention to envision future delivery models for public-parks services. We continue to work with English Heritage, Cadw and Historic Scotland on our Grants for Places of Worship programme. With Imperial War Museums, DCMS and other partners we developed plans for a programme of activities and a new grant-making initiative to mark the Centenary of the First World War in 2014.

#### **l) Acknowledgement**

“The need to include a condition in all grants to acknowledge Lottery funding using the common Lottery branding.”

Our approach to this has not changed this year. We place importance on the benefits of raising awareness of Lottery funding and require all applicants to acknowledge our grants appropriately both during project delivery and following completion. Our guidance *How to acknowledge your grant* forms part of our standard terms of grant and we undertake post-completion visits to a sample of projects to ensure that Lottery acknowledgement remains in place.

#### **m) Partnership funding**

“The need to require an element of partnership funding, or contributions in kind from other sources, to the extent that this is reasonable to achieve for different kinds of applicants in particular areas.”

We have not changed our approach this year. In our open Heritage Grants programme, we require a minimum of 5% in cash or kind for grants up to £1million, and a minimum of 10% on grants over £1million. In view of the continued difficulties facing applicants in raising partnership funding from other sources, we will maintain this position and review it on an annual basis.

#### **n) Decisions**

“The need (a) for money distributed to be applied to projects only for a specific time-limited purpose, (b) to ensure that they have the necessary information and expert advice to make decisions on each application, and (c) for applicants to demonstrate the financial viability of projects.”

- a) We have not changed our approach. The projects we support are specific and time-limited. We limit our support to a maximum of five years for projects involving activities.
- b) We seek information from applicants about the extent to which the projects they put forward meet our strategic aims, supplemented by further information about how the project will be delivered in order that risks and opportunities are fully balanced. Our assessment may include expert advice on key aspects of the application if needed. In future we will be asking applicants to tell us what outcomes for heritage, people and communities their project will achieve.
- c) We ask applicants to provide us with information to demonstrate the financial viability of their project, broken down into capital, activity and other costs, and showing what contribution they are proposing to make from their own resources or from grants or donations from other sources. We ask for cash-flow and, for larger projects, income and spending projections for 10 years, showing how the applicant plans to sustain the project in the long term.

#### **o) Project planning and management**

“Where capital funding is sought, the need (a) for a clear business plan showing how any running and maintenance costs will be met for a reasonable period, and (b) to ensure that appraisal and management for major projects reflect the Office of Government Commerce’s Gateway Review Standards.”

Our approach to this has not changed this year.

- a) The application form for our Heritage Grants programme requires applicants to set out their second-round applications in a business-plan format, with supplementary information contained in an activity plan, cash-flow forecasts and an income-and-spending table. For grants over £2million, under the new strategic framework we will ask for a project business plan. We ask conservation projects to include sound plans for maintaining heritage in the long term in order to ensure that it has a viable future, and to protect our investment through better long-term management. For projects involving over £200,000 worth of capital works, we require a management and maintenance plan detailing how the applicant will meet the extra costs of this following completion of their project, and we publish guidance on how to produce this.
- b) We require all applicants to demonstrate that their projects will be well-managed and meet relevant standards regarded as good practice for the area for which the grant was given. For capital projects we include formal review points in our assessment and monitoring processes (corresponding to RIBA stages) and all national projects adopt the Office of Government Commerce Review Standards. We employ external monitors on all major projects to ensure that projects deliver the approved purposes as contracted, that the risks to HLF are understood and managed, that best practice is achieved in all critical areas, and that financial reporting and management are sound and transparent.

## Policy directions in Wales

Policy direction B requires HLF to take account of “the need to promote and support the Welsh language and reflect the bilingual nature of Wales, including the principle of equality between the English and Welsh languages in the Fund’s activities in Wales, in line with the guidance set out in the Welsh Language Board’s publication\*, and monitored in accordance with agreed procedures”.

Our Welsh Language Scheme sets out HLF’s commitment to treating the Welsh and English languages on the basis of equality in delivery of service and to ensure that policies and initiatives meet the standards set out in the scheme. This covers administrative actions for providing a bilingual public service in Wales, the organisation’s public face, including corporate identity, application forms, guidance notes and the website, press and marketing activity, assessment and monitoring of applications, staffing and recruitment, and consultation exercises and research. We monitor our performance annually through our commitment to an Equality Scheme and have produced guidance to support applicants in Wales in developing bilingual approaches, *Incorporating the Welsh language into your project*.

Directions issued to the Trustees of NHMF under Section 26(1) and (2) of the National Lottery Etc. Act 1993  
The Welsh Ministers, in exercise of their powers conferred by section 26(2) of the National Lottery etc. Act 1993 as transferred by the National Assembly for Wales (Transfer of Functions) Order 1999 and having consulted the Trustees of NHMF (‘the Fund’) pursuant to section 26(5), hereby give the following directions to the Fund:

1. In these Directions any reference to a section is a reference to a section of the National Lottery etc. Act 1993, as amended.

Directions in relation to Wales

2. In exercising any of its functions, the Fund shall take into account the following matters in determining the persons to whom, the purposes for which and the terms and conditions subject to which they may make grants or loans, and the process used to determine what payments to make in distributing any money under section 25(1):

- a) The need to have regard to the interests of Wales as a whole and the interests of different parts of Wales, taking account of the diverse demographic and deprivation patterns in the different parts of Wales, and the desirability of encouraging public service bodies to work together wherever it will result in better outcomes for people and heritage.
- b) The need to promote and support the Welsh language and reflect the bilingual nature of Wales, including the principle of equality between the English and Welsh languages in the Fund's activities in Wales, in line with the guidance set out in the Welsh Language Board's publication\*, and monitored in accordance with agreed procedures.
- c) The need to ensure an outcome-focused approach, working closely with appropriate partners for the benefit of communities and heritage across Wales, where this is an effective means of achieving the Fund's strategy.
- d) The need to encourage the conservation, preservation, presentation, promotion and interpretation of all aspects of the heritage of Wales.
- e) The need to encourage the financial sustainability of the heritage assets of Wales.

- f) The need to provide opportunities for people, especially young people and the disadvantaged parts of society, to gain the skills required to conserve and preserve the heritage of Wales.
- g) The need to encourage the use of appropriate professional standards in all projects.
- h) The need to provide opportunities for people of all ages and all backgrounds, especially children and young people and the disadvantaged parts of our society, to have access to, to learn about, to enjoy and thereby promote the diverse heritages of Wales, where appropriate.

\* Awarding Grants, Loans and Sponsorship: Welsh Language Issues, March 2007.

**Policy directions in relation to Scotland**

Directions issued to the Trustees of the National Heritage Memorial Fund under section 26(2) as read with section 26A(2) (b) of the National Lottery etc. Act 1993 With the agreement of the Secretary of State, the Scottish Ministers, in exercise of the powers conferred by section 26(2) as read with section 26A(2)(b) of the National Lottery etc Act 1993\*\*, and having consulted with the Trustees of the National Heritage Memorial Fund (the 'Trustees'), hereby give the following directions:

- 1. These directions apply only to Scotland and relate to any distribution made by the Trustees for a purpose which does not concern reserved matters.
- 2. In determining the persons to whom, purposes for which and the conditions subject to which they apply any money under section 25(4) of the National Lottery etc. Act 1993 in Scotland, the Trustees must take into account the following priorities and other matters:
  - a) The need to have regard to the interests of Scotland as a whole and the interests of different parts of

Scotland, taking account of the diverse demographic and deprivation patterns in the different parts of Scotland, and the desirability of encouraging public service bodies to work together wherever it will result in better outcomes for people and heritage.

- b) The need to ensure an outcome focussed approach, working closely with appropriate partners for the benefit of communities and heritage across Scotland, using the following principles:

**Engagement**

The development of programmes should be based on the active engagement of appropriate partners.

**Greener**

People have better and more sustainable services and environments.

**Healthier**

People and communities are healthier.

**Safer and stronger**

Communities work together to tackle inequalities.

**Smarter**

People having better chances in life.

**Solidarity and cohesion**

Ensuring that individuals and communities across Scotland have the opportunity to contribute to, participate in, and benefit for a more successful Scotland.

**Sustainability**

To improve Scotland's environment today and for future generations while reducing Scotland's impact on the global environment.

**Wealthier and fairer**

A flourishing and sustainable economy.

- c) The need to encourage the conservation, preservation, presentation, promotion and

interpretation of, and access to, all aspects of the heritage of Scotland.

- d) The need to promote and support throughout Scotland the cultural significance of the Gaelic and Scots languages.
- e) The need to encourage the financial sustainability of the heritage assets Scotland including those that are of the national importance to the people of Scotland.
- f) The need to provide opportunities for people, especially young people and the disadvantaged parts of society, to gain the skills required to conserve and preserve the heritage of Scotland.
- g) The need to encourage the use of appropriate professional standards in projects.
- h) The need to provide opportunities for people of all ages and all backgrounds, especially children and young people and the disadvantaged parts of our society, to have access to, to learn about, to enjoy and thereby promote the diverse heritage of Scotland, where appropriate.
- i) The need to encourage heritage projects that sustain a cultural legacy arising from international events in Scotland.
- j) The need to keep Scottish Ministers informed of the development of policies, setting priorities and the making of grants in Scotland.

\*\* The function conferred on the Secretary of State was transferred to the Scottish Ministers by virtue of Schedule 1 to the Scotland Act 1998 (Transfer of Functions to the Scottish Ministers etc.) Order 1999 (S.I. 1999/1750).

# Corporate Performance

## Service level targets

performance for the year to 31 March 2013

Indicators of service level	Year to March 2013 (average)	Year to March 2012 (average)	Year to March 2011 (average)
1 Decisions will be placed on HLF's website within 10 working days of the meeting	<b>9.4 days</b>	10.03 days	10.1 days
2 Grant payments will be made to the applicant, on average, within 10 working days from receipt of the payment request	<b>7 days</b>	7 days	8 days
3 An annual survey of grant applicants will show an 80% satisfaction rating with HLF's service for assessment, and 85% for monitoring	<b>Assessment 80%</b>	Assessment 80%	Assessment 80%
	<b>Monitoring 86%</b>	Monitoring 87%	Monitoring 87%
4 HLF applications will be processed within the following timescales:			
<b>Heritage Grants</b>			
• first round	<b>3.4 months</b>	3.3 months	3.2 months
– within three months plus time to next meeting			
• second round	<b>3.4 months</b>	3.2 months	3.7 months
– within three months plus time to next meeting			
<b>Parks for People</b>			
• first round – within four months	<b>3.5 months</b>	3.6 months	3.4 months
• second round – within four months	<b>4.4 months</b>	4.2 months	4.7 months
<b>Landscape Partnerships</b>			
• first round	<b>4.5 months</b>	4.6 months	4.6 months
– within five months plus time to next meeting			
• second round	<b>4.0 months</b>	3.4 months	3.1 months
– within four months plus time to next meeting			
<b>Repair Grants for Places of Worship (Northern Ireland, Scotland and Wales)</b>			
• first round – within five and a half months	<b>4.5 months</b>	4.6 months	5.1 months
• second round			
– within three months plus time to next meeting	<b>1.9 months</b>	1.6 months	2.8 months
<b>Skills for the Future</b>			
• within three months	<b>Not applicable</b>	Not applicable	2.1 months
<b>Townscape Heritage Initiative</b>			
• first round	<b>4.6 months</b>	4.2 months	4.5 months
– within five months plus time to next meeting			
• second round	<b>3.2 months</b>	3.2 months	3.9 months
– within three months plus time to next meeting			
<b>Your Heritage</b>			
• within 10 weeks	<b>8.3 weeks</b>	8.4 weeks	8.3 weeks
<b>Young Roots</b>			
• within 10 weeks	<b>8.3 weeks</b>	8.7 weeks	8.3 weeks

## Indicators of service level

The customer performance indicators show another year of good performance in most areas. Maintaining good customer service in a year when we have received 35% more applications reflects very well on our staff.

### Indicator 1

We met our target of posting decisions on our website in 10 days.

### Indicator 2

We made over 6,500 grant payments this year, 13% more than last year, and the average time taken was the same as last year and one day less than the year before, and was well below the target of 15 days. Fast payment by HLF is particularly helpful to grantees in the management of their own bill paying.

### Indicator 3

Customer satisfaction with both our assessment and monitoring work, researched by independently conducted telephone surveys, remains very high. The satisfaction of applicants, both successful and unsuccessful, met the target. Satisfaction with our service after we have made an award fell just short of the target but was a small improvement over last year.

### Indicator 4

On 1 April 2008 HLF published its third strategic plan, which introduced new processes and procedures. Those new processes brought with them reductions in the time we take to give an applicant a decision for most of our grant programmes. We have met published processing times with the sole exception of second-round applications to our Parks for People programme.

## Progress on Projects Over £5million

The following table shows the progress on uncompleted projects involving £5million or more of Lottery funding.

Project title	Total project cost	Grant amount	% of grant paid to date	Latest report
The British Museum World Conservation and Exhibitions Centre	£37,784,645	£10,000,000	15	Superstructure steelwork completed to roof level with precast planks in place on all floors. In the basement, work on floor screeds and services is progressing.
Burns Birthplace: An International Museum (Ayr)	£14,000,000	£5,827,000	100	Project completed. Final grant paid January 2013.
Buxton Crescent and Spa	£33,180,338	£13,030,000	18	All parties signed a contract in April 2012. Works beginning on site.
The Canterbury Beaney: Combined Art Museum and Library	£12,364,596	£7,015,000	79	Museum opened September 2012. Final accounts being prepared.
Chiswick House and Gardens Regeneration Project: Phase 1	£11,887,500	£8,100,000	95	£200,000 grant increase awarded April 2011 for additional support needed to complete the project and outstanding water works. Awaiting final accounts.
Creating the Museum of Bristol: The People's Story	£27,390,843	£11,668,400	81	Practical completion achieved with over one million visitors since opening. Final payment pending.
Creu Hanes – Making History at St Fagan's	£24,477,415	£11,550,000	4	Grant awarded July 2012. Permission to start given in November 2012 subject to full fundraising schedule.
The Cutty Sark Conservation Project	£45,133,841	£25,001,000	100	Project completed. Grant increase of £2million awarded March 2011. Opened to public in April 2012, visitor numbers high. Final grant paid November 2012.
Edouard Manet's Portrait of Mademoiselle Claus	£7,929,300	£5,999,300	98	Grant awarded April 2012. Painting acquired August 2012. Outreach work in development.
Hastings Pier	£14,248,352	£11,550,000	3	Grant awarded November 2012. Compulsory Purchase Order agreed September 2012.
Hull History Centre	£10,697,161	£7,506,000	84	The Hull History Centre project opened to the public in June 2010. The HLF-funded activity programme is being delivered and the project is due to be completed next winter.
Lincoln Castle Revealed	£19,982,405	£12,000,000	2	Permission to start agreed.
Making Modern Communications	£14,300,000	£6,000,000	14	Gallery being cleared for new installations for autumn 2014 opening.
Mary Rose Museum Project	£32,452,000	£25,205,000	84	Construction of new build completed and museum scheduled to open May 2013. Wet spraying completed.
Museum of Liverpool	£19,373,633	£11,400,000	89	Museum opened July 2011. Project seeking completion, pending resolution of (non-HLF-project-related) issues.
The Piece Hall – Halifax Heritage	£10,770,888	£7,000,000	3	Grant awarded July 2012.
Renaissance of the Cotswold Canals	£19,013,111	£12,716,300	61	£792,300 grant increase awarded November 2012 as a result of a comprehensive review of the Project Cost Plan. The revised scheme will restore 8.7km of canal and provide towpath with public access.

Project title	Total project cost	Grant amount	% of grant paid to date	Latest report
Restoring our Fenland Heritage – the purchase and restoration of the Holmewood Estate	£16,851,774	£13,350,785	68	£1,897,700 grant increase awarded March 2013 to secure a further 182 hectares of land. This was envisaged in the original proposals, but the land has only just become available.
Riverside Museum and Glasgow Museums Resource Centre (Phase 2) Project	£96,377,305	£20,650,000	100	Since museum opening in May 2011 visitor numbers have been high. Project completed February 2013.
Royal Albert Memorial Museum & Art Gallery Development	£19,126,003	£9,652,000	95	Final payment pending. Since museum opening in December 2011 visitors numbers have been high.
The Royal Museum Project, Edinburgh	£44,039,239	£17,762,000	100	Since museum opening in July 2011 visitor numbers have been high. Project completed December 2012.
Stonehenge Environmental Improvements Project	£21,619,387	£10,000,000	10	Project currently underway on site, with visitor centre due for completion by winter 2013.
The Temperate House Project	£32,330,148	£14,690,600	6	Grant awarded March 2013.
The 21st Century Gallery in the Park: Extending Access to the Whitworth's Collections	£12,545,059	£8,500,000	18	£500,000 grant increase awarded October 2012, due to tenders coming in over budget. All partnership funding now secured.
Tyntesfield (Bristol)	£29,561,000	£20,000,000	100	Project completed December 2012.
York Minster Revealed	£18,295,155	£9,797,000	42	Works to the Chapter House Yard completed. Stonework and glazing progressing on programme and works are ongoing on the Undercroft which is due to open summer 2013.

# Employment Monitoring

1. Under Articles 5(1), 5(2) and 5(3) of the Race Relations Act 1976 (Statutory Duties) Order 2001, the Fund has a duty to monitor, by reference to the racial groups to which they belong, and to report annually:

- a) the numbers of:
- staff in post; and
  - applicants for employment, training and promotion, from each such group; and
- b) the numbers of staff from each such group who:
- receive training;
  - benefit or suffer detriment as a result of the Fund's performance assessment procedures;
  - are involved in grievance procedures;
  - are the subject of disciplinary procedures; or
  - cease employment with the Fund.

## 2. Results of monitoring carried out in 2012-13

### 2.1 Permanent staff in post as at 18 April 2013

Ethnic origin	Total
African	4
Asian	1
Asian Bangladeshi	1
Asian Indian	4
Asian Pakistani	2
Black African and White	1
Caribbean	5
Oriental Chinese	1
Other Asian	1
Other Black	1
Other Mixed Ethnic	2
Other	3
White	255
<b>Grand total</b>	<b>281</b>

### 2.2 Applications for employment in 2012-13

Monitoring information of job applicants, including internal applicants, who applied through our jobs website online for 51 externally advertised vacancies between 1 April 2012 and 31 March 2013.

Ethnic origin	Returning applications	Shortlisted for interview	Successful at interview
African	76	0	0
Arab	1	1	0
Bangladeshi	42	4	0
British/English/ Northern Irish/ Scottish/Welsh	1,618	273	37
Caribbean	48	4	1
Chinese	15	2	0
Indian	112	4	1
Irish	53	8	3
Not stated	450	55	8
Other	29	1	0
Other Asian	17	3	0
Other Mixed	12	2	0
Other White	63	8	0
Pakistani	32	1	0
White and Asian	17	4	1
White and Black African	4	0	0
White and Black Caribbean	11	1	0
<b>Grand total</b>	<b>2,600</b>	<b>371</b>	<b>51</b>

### 2.3 Numbers of training days undertaken by staff

The Fund's database on internal training shows that we met our policy aim of ensuring that all staff from all racial groups had equal access to training and development opportunities throughout the year.

### 2.4 Performance assessment procedures

In 2012 there were 34 white employees whose performances were rated as outstanding and three employees from other racial groups whose performances were rated as outstanding. No employees suffered any detriment as a result of performance assessment procedures.

### 2.5 Applications for internal promotion

During the year 2012–13 six white employees were permanently promoted internally, and four white employees and one from another racial group were temporarily promoted internally.

### 2.6 Number of employees involved in grievance procedures during 2012–13

No formal grievances were raised by any employees during the current year.

### 2.7 Number of employees subject to disciplinary procedures during 2012–13

No employees were subject to formal disciplinary proceedings during this period.

### 2.8 Number of employees leaving the Fund's permanent employment in 2012–13

White employees	30
All other racial groups	2

## 3. Specific duties

The specific duties on employment which the Order places on public authorities, including the Fund, are designed to provide a framework for measuring progress in equality of opportunity in public-sector employment. They are also aimed at providing monitoring information to guide initiatives that could lead to a workforce which is more representative of the communities in which it is based and which it serves.

The Fund continues in its recruitment advertising to encourage job applications from black, Asian and minority ethnic groups, recognising that its workforce is not yet fully representative of local or national diversity.











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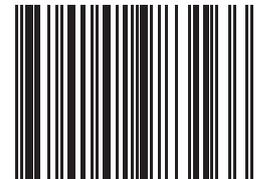
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