



Heritage Lottery Fund

National Heritage Memorial Fund Lottery Distribution
Annual Report and Accounts for the year ended 31 March 2014



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Report of the Trustees and Accounting Officer

Strategic report

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 him or 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 subsequently 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. The 1998 Act gave Trustees the power to make revenue grants to broaden access to heritage and to

delegate Lottery grant decisions to staff and also to committees containing some members who are not Trustees.

Aims

Using money raised through the National Lottery, HLF gives grants to sustain and transform our heritage through projects which make a lasting difference for heritage and people. Working with partners, we speak up for and demonstrate the value of heritage to modern life.

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. They 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 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.

The NHMF receives Lottery 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, we have received over 63,000 applications and made over 43,000 awards. During the year, we had almost 3,800 grant applications, requesting over £1 billion (an 18% increase on last year). The level of requests was over three times our income and means, unfortunately, that we have to disappoint many of our applicants.

We have been informed by DCMS that residual funds in the Olympic Lottery Distribution Fund will be returned to Lottery distributors during 2014–15. We expect this sum to be around £28 million. We anticipated this receipt when setting our grant award budget for 2013–14, which was £28 million higher than the long-term trend of £375 million. Thus we were able to partially deal with the much greater level of applications with this one-off addition to our budget.

During the course of 2013–14, Trustees signed contracts for £408 million of grant awards, which was a 10% rise over 2012–13. This shows the impact of significantly increased grant award budgets over recent years as our income levels rose. Positive decisions in the year were £691 million, a 74% increase on 2012–13. This was a one-off rise and results from a change in our policy of dealing with first round decisions under our Heritage Grants and Parks for People programmes. Under our third strategic plan, we stopped recognising first round decisions as soft commitments for Heritage Grants and Parks for People positive decisions. This was because it was expected that in a significant proportion of cases the full award would not be granted at the second round. In reality that has not occurred and so we have returned to the situation existing before the third strategic plan. The effect of this is that we recognised first round decisions in 2013–14 as soft commitments as well as recognising second round decisions as soft commitments, where the original first round decision had been made in a previous financial year. Consequently, it could be said that we had two years' worth of soft commitments. The opposite occurred when we set up the system at the start of the third strategic plan; we had a couple of years with a relatively low level of soft commitments being created.

Overall, net income fell from £389 million in 2012–13 to around £334 million this year. A strict year-on-year comparison between years is difficult. This is because last year we

felt the impact of the last transfer of funds to help fund the 2012 Olympics, over £20million. In 2013–14, whilst there was no Olympic transfer, the operators of the National Lottery, Camelot with the agreement of the Gambling Commission, funded a significant amount of promotional activity around the time of the introduction of the £2 Lotto ticket by means of reducing the income allocated to the Lottery distributors. These funds will be repaid in a later year. Trustees would have preferred to have been notified in advance of the transfer.

Income levels do not appear to have been affected by the rise in price of some Lottery tickets. Investment income fell by a quarter in 2013–14 to £1.6million. 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.

The balance of our funds at the NLDF rose from £475million to £511million at the end of the financial year. Trustees had expected the balance to rise further, but whilst grant payments were generally in line with expectations, our income from the National Lottery was below forecast. Our combined grant and administration budget for 2014–15 is well in excess of forecast income and we hope that this will help to prevent the NLDF balance from rising further. Unfortunately, there is often a long time lag between 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 current strategic framework. 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, £9.3million, basically represents one award that has not been converted to a hard commitment 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 £708million 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 £330million at 31 March 2014. In addition, there was another £203million of non-commitment first-round passes (on programmes where a soft commitment was formerly not recognised at the first-round

Commitments table

	Stage-one and first-round soft commitments £m	Grant awards £m	Hard commitments £m	Total decisions £m
At start of the year	97.3	3.4	740.2	
Trustees' decisions in the year	364.2	326.4	-	690.6
Converted in the year	(86)	86	-	
Converted in the year	-	(407.9)	407.9	
De-commitments	(11.1)	1.4	(15.2)	
Grant payments	-	-	(287.5)	
At end of the year	364.4	9.3	845.4	

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 2.7 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 have no reason to believe that the government has any plans to change the percentage of good-causes money received by NHMF or to change Lottery distributors. The accounts follow the Accounts' Direction issued by the Secretary of State.

There was a 6% rise in staff costs. The government's continued restraint in public-sector wages – the overall paybill can only rise by 1% – means that the rise in costs is a result of an increase in permanent and fixed-term contract staff. Staff numbers rose by 29 during 2012–13 and the full year impact of this significant rise is mostly to blame for the higher costs in 2013–14. There is likely to be a further small increase in numbers in 2014–15.

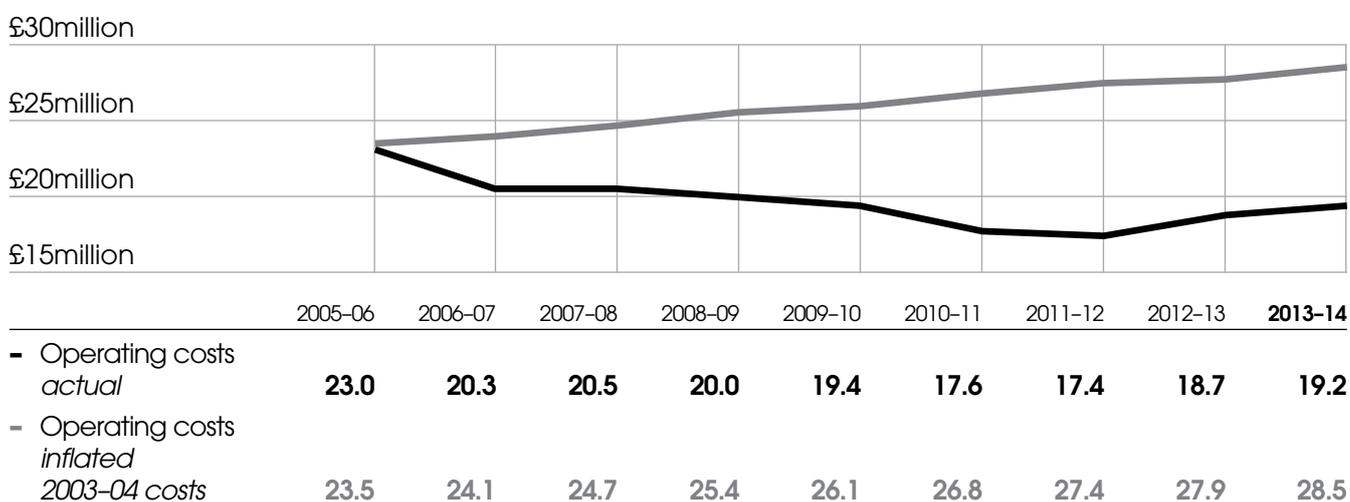
Depreciation costs fell significantly. The main reason for this is the end of the third strategic plan and the associated software costs. Our current strategic framework required fewer changes to our computer system and thus less depreciation was incurred.

Other operating costs rose by 4%. The main reason for cost increases was our professional fees where we buy-in expertise to support our grant assessment and monitoring. Our research expenditure rose significantly as we set in train projects to investigate the impact of the cumulative effect of our funding, over the last 20 years, in a range of places across the UK. In addition, our mentoring costs have expanded significantly – we spent over £613,000 in 2013–14 – to assist grantees make improved second round applications. There was also a fall in the contribution from Big Lottery Fund (see below).

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 £375,000 to £298,000.

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)

2 from the Committee on Climate Change (CCC) towards to cost of their occupation of 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 2013–14 they were charged £204,000 (2012–13: £206,000).

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 large 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.

The Trustees consider the risks faced by the organisation 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 past few years – the black line. The grey line shows the value of operating costs incurred in the year we created our full regional office structure (2003–04) 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 2013–14, Trustees are pleased to note that this year’s operating costs are £9.3million (or 33%) 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 £11.7million (or 38%) below the 2003–04 level.

Targets have been set by ministers requiring Lottery distributors to keep their grant-processing costs below 5% of income and their operating expenditure below 8% of total income. We were given until 2013–14 to achieve these targets; although, we managed it well before then. 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 2013–14, we achieved the following:

	Target	Actual 2013-14	Actual 2012-13	Actual 2011-12
Operating expenditure as a proportion of total income	8%	5.7%	4.8%	5.7%
Processing expenditure as a proportion of total income	5%	4.1%	3.8%	4.5%

Trustees are pleased to note that the targets continue to be met despite the decline in income and the significant rise in the number of applications we have had to process.

Financial instruments and investment strategy

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 2013–14, £332million (99%) of NHMF's Lottery distribution income 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 significantly exceeded the value of funds in the NLDF at 31 March 2014. 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), as recently as March 2014, 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 March 2023, when the fourth Lottery operating licence expires. Thus, even if there were a long-term decline in Lottery income, Trustees would simply 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 £511million. We are informed by DCMS that funds at the NLDF earned on average 0.5% in the year. Our cash balances, which are amounts drawn down from the NLDF to allow us 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 £1.3million. 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.

	2013-14 £'000	2012-13 £'000
Cash balances		
– sterling at floating interest rates	1,325	9,912
– sterling at a mixture of fixed rates	511,372	475,331
	512,697	485,243

Credit risk

The figure for receivables comprises prepayments (mostly on property leases and business rates) and intra-government balances. The intra-government balances are mostly with bodies that DCMS sponsors and all had been paid by the time of signing the accounts with the exception of the loan which is not due for repayment for a number of years. 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

	2013-14 £'000	2012-13 £'000
Assets per the Statement of Financial Position		
- investments available for sale	511,372	475,331
- cash and cash equivalents	1,325	9,912
- loans and receivables	3,500	4,303
	516,197	489,546

Financial liabilities by category

	2013-14 £'000	2012-13 £'000
Liabilities per the Statement of Financial Position		
- provision	0	0
- other financial liabilities		
• grant commitments	845,440	740,217
• operating payables	764	604
• other payables	393	364
• accruals	1,382	1,670
	847,979	742,855

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 2014.

Financial assets at 31 March 2014

	Book value £'000	Fair value £'000
Cash ¹	1,325	1,325
Investments ²	511,372	511,372
Receivables ³	3,500	3,500
	516,197	516,197

Financial assets at 31 March 2013

	Book value £'000	Fair value £'000
Cash	9,912	9,912
Investments	475,331	475,331
Receivables	4,303	4,303
	489,546	489,546

Financial liabilities at 31 March 2014

	Book value £'000	Fair value £'000
Grant commitments ⁴	845,440	845,440
Operating payables ⁵	764	764
Other payables ⁵	393	393
Accruals ⁵	1,382	1,382
	847,979	847,979

Financial liabilities at 31 March 2013

	Book value £'000	Fair value £'000
Grant commitments	740,217	740,217
Operating payables	604	604
Other payables	364	364
Accruals	1,670	1,670
	742,855	742,855

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. He 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.
- 4 Whilst we disclose £507million 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 if the underlying heritage projects proceed more quickly than anticipated.
- 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

	2013-14 £'000	2012-13 £'000
In less than one year	847,979	742,855
In more than one year, but less than two	0	0
In two to five years	0	0
In more than five years	0	0
	847,979	742,855

The Statement of Financial Position discloses the above figures separated between amounts due in one year and amounts due in more than one year. Our contracts with grantees contain no split between amounts due within one year and beyond one year. The split reported in these accounts is based purely upon our past experience of amounts drawn down by grantees to fund their projects. 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.

For a description of our work in the area of environmental matters, please see the environmental policies and sustainability reporting in the Directors' report below.

Chair and Trustees of NHMF

Chair

Dame Jenny Abramsky²

Trustees

Sandie Dawe¹ from 18 February 2014

Angela Dean¹

Sir Roger De Haan from 20 January 2014

Kim Evans²

Yinnon Ezra¹ to 3 February 2014

Kathy Gee to 9 September 2013

David Heathcoat-Amory¹ from 20 January 2014

Doug Hulyer¹ to 9 September 2013

Hilary Lade²

Alison McLean¹ to 17 February 2014

Steve Miller from 18 February 2014

Richard Morris

Atul Patel²

Dame Seona Reid

Ronnie Spence¹ to 31 December 2013

Virginia Tandy

Tom Tew from 20 January 2014

Manon Williams

Christopher Woodward to 31 October 2013

Chief Executive

Carole Souter²

¹ Member of Audit Committee

² Member of Finance, Staffing and Resources Committee
(which also covers remuneration)

Details of other senior managers can be found in the Remuneration report.

The gender split of staff and Trustees at 31 March 2014 was as follows:

	Male	Female	Total
Trustees	6	8	14
Directors	2	2	4
Staff	67	203	270

Dame Jenny Abramsky
Chair

Carole Souter
Chief Executive

3 July 2014

Directors' report

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% (2012–13: 5.3%) 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. 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 2013–14 representatives from the employee assistance provider Right Management 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 2013–14, the average age of invoices paid was seven working days (2012–13: 10 days). Over 94% of invoices were paid within 30 calendar days (2012–13: 90%).

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 2014, the figure was 31 days (2012–13: 27 days).

Environmental policies and sustainability reporting

The Treasury required 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. As 2010–11 was the first year of collecting the information, it was not a reliable baseline; for example, none of our landlords provided 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 onwards, the situation improved slightly, but we still have to estimate much of our consumption.

From 2013–14, we have started to calculate our carbon dioxide equivalent consumption for water and for waste.

As we are one organisation, Trustees see no benefit 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 risen in 2013–14. This is for the following reasons:

- staff numbers have increased and so it is inevitable that consumption will have increased;
- as noted above, we have started to calculate the carbon dioxide equivalent consumption for water and for waste. Without this change, our figures would have fallen as gas and electricity usage fell slightly. This is as a result of the relatively mild winter in 2013–14.
- DEFRA has altered their conversion factors for all our categories of consumption. Inevitably, this makes year-on-year comparison difficult.

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 very little 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. Over the years, we have re-located some of our regional and country offices into smaller premises, which will have reduced

Area	2013-14	2012-13	2011-12	2010-11
Greenhouse-gas emissions – scopes 1, 2 & 3 which incorporates business travel including international air/rail (tCO ₂ e)	1,076	550	747	594
Estate energy – consumption (million kWh)	0.9	1.1	1.3	1.3
– expenditure (£)	445,624	489,638	384,532	358,000
Estate waste – consumption (tonnes)	28	24	19	20
– expenditure (£)	12,400	5,518	6,640	8,000
Estate water – consumption (m ³)	5,655	3,757	5,223	14,716
– expenditure (£)	14,182	11,253	18,786	19,000

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

Area per FTE	2013-14	2012-13	2011-12	2010-11
Greenhouse-gas emissions – scopes 1, 2 & 3 which incorporates business travel including international air/rail (tCO ₂ e)	4.1	2.2	3.3	2.5
Estate energy – consumption (kWh)	3,595	4,249	5,701	5,686
– expenditure (£)	1,716	1,986	1,679	1,530
Estate waste – consumption (tonnes)	0.1	0.1	0.1	0.2
– expenditure (£)	48	22	29	34
Estate water – consumption (m ³)	22	15	23	63
– expenditure (£)	55	46	82	81

The 2012-13 figures have been revised in the second table following the recalculation of 2012-13 staff numbers (see note 3).

consumption. Since May 2011, we have also rented out most of one of the floors of our head office building with the effect of reducing consumption.

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 conversion factors supplied by the Department for Environment, Food and Rural Affairs (DEFRA). The carbon dioxide equivalent for emissions from our air conditioning chillers was calculated in the same way; using the formulae set out in DEFRA's guidance at www.ukconversionfactorscarbonsmart.co.uk.

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 conversion factors supplied by DEFRA at the above website. 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 the same tables of conversion factors.

Waste

Waste generation has risen in 2013-14. As discussed below, there is no reliable measure of the amount of waste we generate as it is simply taken away by councils and it would not be a legitimate use of resources to procure

weighing equipment simply for the purpose of improving our reporting of this figure. We will continue to seek out a practical solution to calculating a reliable figure.

NHMF does not generate any hazardous waste. Further analysis of what happened to the waste we generated is not possible. All non-recycled waste is collected by councils local to the offices in which we operate. We do not know what they do with that waste and have made assumptions as to where the waste goes in order to produce the above figures. Only Kensington & Chelsea Council invoice us separately, but we have now started including the cost of removing shredded paper.

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 to us if councils routinely weighed the waste they removed from our offices.

Use of resources

Water consumption rose in 2013–14. This is as a result of our fitting a water meter at Holbein Place so that we now have a much better idea of our consumption. It is obvious that the amounts we were billed by the water company up to that point significantly understated our consumption. We are now considering whether to install water meters at our other offices, but this would require the cooperation of our landlords. Our landlords provide information about the number of cubic metres of water consumed based on the space we occupy, rather than by individual metering.

We undertook in 2013–14 a review of electricity consumption at our head office in London. This involved an investigation of

power usage on each floor through the placement of meters and by undertaking enhanced maintenance to improve the efficiency of our electrical devices. Estate energy consumption has reduced. We believe that our review has made a small improvement in consumption, but we accept that the relatively mild winter will have been the main cause of the fall.

Future developments

Projections provided by DCMS of likely income from the National Lottery suggest that returns will continue at the level they achieved in 2013–14. This was slightly down on our income in 2012–13, but it is still above amounts we received in earlier years. On this basis we will maintain our grant award budget for 2014–15 at the long term trend of £375million, but obviously Trustees will monitor income closely over the next 12 months and revise future budgets as appropriate.

2014–15 will be the second year of our 2013–18 strategic framework. We now take an explicit outcomes-based approach to our assessment of projects, taking account of the broad range of benefits that they may deliver, and give extra weight to those outcomes we value most, such as learning. We take a proportionate approach and expect small grants projects (under £10,000) to achieve, as a minimum, one outcome for people, while large grants over £2million should deliver a wide range of outcomes for heritage, people and communities. These outcomes are:

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.

In July we will be staging Heritage Exchange, in partnership with the Royal Society of Arts, an important forum for bringing together heritage leaders and others with an interest in sharing ideas about heritage, its role in civil society and place and how best to ensure its resilience in the future.

Later in the year we will be unveiling a significantly improved website, and rolling out the online communities presence that we have been piloting to enable applicants, grantees and others with an interest in heritage to share learning and good practice with each other.

We expect to introduce a new accounting policy and switch from commitment to accruals' accounting. When the National Lottery started, we were required by the Secretary of State's accounts' direction to utilise commitment accounting. This meant that we recorded, on our Statement of Financial Position, all our grant awards at the time the contract was recognised. If a revised accounts' direction is issued in 2014–15, adopting the Treasury's Financial Reporting Manual and reporting on an accruals basis, we will have to restate our results for 2013–14. We do not believe that this will have a significant impact on our reported figures.

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 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

We work with a wide range of key stakeholders and partners and consult them extensively when developing our strategic framework and grant-making policies and practice. Among them are the Lottery playing public, applicants and grantees, strategic agencies and lead bodies for heritage and other policy areas relevant to our funding across the UK, elected Members and local government and national Governments. The Department for Culture, Media and Sport issues UK-wide Policy Directions (see pages 48 to 54) and controls the NLDF that invests the money received from the National Lottery.

Events after the reporting period

There were no events that occurred after 31 March 2014, 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 8 July 2014, which was the date the accounts were certified by the Comptroller and Auditor General.

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 our grant assessment we ask applicants to make a clear case for lottery investment, including telling us what other sources of funding have been considered.

Personal data

NHMF 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. NHMF 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 2013–14, 946 days were lost due to 364 sickness episodes (2012–13: 1,151 days in 366 episodes), which continue to represent a very modest 0.96% of all working days (2012–13: 1.28%).

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. Sir Roger De Haan waived his right to receive a salary in 2013–14.

The remuneration of Trustees, including reimbursement of taxable expenses and the tax thereon, falls into the bands in the table on the right. All Trustees are appointed by the Prime Minister. They have three-year appointments, potentially renewable for a second term. 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 2013–14 was £196,579 (2012–13: £202,111). 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

	2013–14 £'000	2012–13 £'000
Dame Jenny Abramsky <i>Chair</i>	40–45	40–45
Sandie Dawe <i>from 18 February 2014</i>	0–5	0
Angela Dean	5–10	5–10
Sir Roger De Haan <i>from 20 January 2014</i>	0	0
Kim Evans	5–10	5–10
Yinnon Ezra <i>to 3 February 2014</i>	10–15	5–10
Kathy Gee <i>to 9 September 2013</i>	0–5	5–10
David Heathcoat-Amory <i>from 20 January 2014</i>	0–5	0
Doug Hulyer <i>to 9 September 2013</i>	5–10	5–10
Hilary Lade	10–15	10–15
Alison McLean <i>to 17 February 2014</i>	5–10	5–10
Steve Miller <i>from 18 February 2014</i>	0–5	0
Richard Morris	5–10	5–10
Atul Patel	10–15	5–10
Dame Seona Reid	20–25	20–25
Ronnie Spence <i>to 31 December 2013</i>	15–20	20–25
Virginia Tandy	10–15	10–15
Tom Tew <i>from 20 January 2014</i>	0–5	0
Manon Williams	20–25	20–25
Christopher Woodward <i>to 31 October 2013</i>	0–5	5–10

Remuneration of employees (Audited information)

The remuneration of directors was as follows:

	Salary 2013-14 £'000	Salary 2012-13 £'000	Bonus 2013-14 £'000	Bonus 2012-13 £'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 31/03/14 £'000	CETV at 31/03/13 £'000*	Real increase in CETV funded by NHMF £'000
Carole Souter <i>Chief Executive</i>	135 to 140	130 to 135	5 to 10	0 to 5**	0 to -2.5 and -2.5 to -5 lump sum	75 to 80 plus 225 to 230 lump sum	1,566	1,505	-35
Robert Bewley <i>Director of Operations</i>	90 to 95	90 to 95	5 to 10	5 to 10	0 to 2.5 and 0 to 2.5 lump sum	30 to 35 plus 95 to 100 lump sum	726	674	7
Judith Cligman <i>Director of Strategy and Business Development</i>	90 to 95	90 to 95	5 to 10	5 to 10	0 to 2.5 and 0 to 2.5 lump sum	30 to 35 plus 100 to 105 lump sum	659	612	6
Steve Willis <i>Director of Finance and Corporate Services</i>	105 to 110	105 to 110	5 to 10	5 to 10	0 to 2.5 and 0 to 2.5 lump sum	55 to 60 plus 165 to 170 lump sum	1,282	1,202	3

* 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 2013-14. The CETVs at 31/03/14 and 31/03/13 have both been calculated using the new factors, for consistency.

** Carole Souter waived her right to a director's bonus in 2012-13 and a performance bonus in 2013-14.

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% (2012–13: 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, Staffing and Resources Committee’s (membership of this committee is disclosed on page 9) 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 2013–14 was £140,000 to £145,000. This was almost six times the median remuneration of the workforce, which was £24,851 (2012–13: £25,593). There were no employees who received remuneration in excess of the highest-paid director. In 2013–14 the Fund created a number of new posts and the starting salary of the majority of these new entrants was less than £25,593, the median in 2012–13. 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 2013–14 (2012–13: one).

Audited information

	2013-14 Number	2012-13 Number
£5,000–£10,000	0	1
£15,000–£20,000	1	0

Carole Souter
Chief Executive

3 July 2014

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

3 July 2014

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 funds derived from the National 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*.

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 11 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 2013–14 were quorate. The overall average attendance rate of Trustees was 99%, with all but one Trustee achieving 100% attendance. Trustees have also delegated some of their tasks to three sub-committees – Finance, Staffing and Resources, Communications 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. A comprehensive list of the matters reserved for the Board was drawn up during 2013, and can be found on the HLF website.

The Finance, Staffing 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 three 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 Committee changed its name during the year, by incorporating 'Staffing' into its name. This was to demonstrate the importance of staff to its remit. 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; discussing the latest Investors in People report where the Committee was pleased to see that NHMF continued to achieve the necessary standards; reviewing in depth the roll-out of the current strategic framework and the content of the 2014–15 Business Plan.

The Audit Committee currently comprises three Trustees, although it is envisaged that a fourth will be added during 2014. The Committee is chaired by a Trustee. It met three times during the year and was quorate on each occasion. There was significant turnover of membership of this Committee during the year as Trustees' contracts came to an end. I ensured that the replacement Trustees on the Committee had relevant knowledge and experience for this role.

I attend each meeting of the Audit Committee 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. A significant Committee action in the year was overseeing the re-tendering of the internal audit contract. The outcome was a change in internal auditors, who will begin their role in 2014–15. The Committee makes regular reports to the Board and Trustees are satisfied that the Committee is providing them with the assurance they require.

The Board is also supported by a Communications Committee which advises on communications' strategy and acts as a sounding board for key initiatives.

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 delegated grants decisions and committees annually review delegated grants activity. An annual report on the impact of delegated 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 and the Scottish governments 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 involve 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 scrutinised and 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 2013–14, NHMF considered the following to be the most significant areas of risk:

- the grant-in-aid resources of the National Heritage Memorial Fund are insufficient to rescue outstanding parts of our national heritage which are at risk;
- the high number of 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 applications and 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 from 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;
- risk that the benefits of heritage investment are not understood and valued by stakeholders across the UK; and
- risk of increased media and opinion-former scrutiny of our funding decisions in the 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 when they receive a one-day training session on fraud awareness. NHMF also has an information risk policy which is compliant with the Cabinet Office documents, the Security Policy Framework and with the mandatory measures of the Data Handling Procedures in Government. All staff receive guidance on information risk as part of their induction. The policy, which is reviewed on an annual basis, requires all data to be held securely.

Business Critical Models

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

out of cash at a later date. The model was created by an external organisation around 10 years ago following consultation with our staff. The model remains in its original form other than to have had its life extended beyond 2014–15. Despite the significant changes to the way we operate and a variety of new grant programmes created since the model was formulated, we find that it provides a reasonable forecast of our balance at the NLDF – in 2013–14, the model forecast grant payments of £294million; the reality was £288million, a 2% variance. Consequently, we have not had to consider a re-design. The model is updated in two ways: (1) whenever DCMS issues an updated Lottery income projection, perhaps twice a year; and (2) after the year end when the model data is updated with all the actual figures for the year just completed. On both occasions, there is a thorough review of the accuracy of the updates before the Board makes a decision on whether the grant award budget, in both the short and long term, remains appropriate.

Significant issues dealt with by the Board during the year

The most significant activity for the Board has been the roll out of the current strategic framework, *A lasting difference for heritage and people*. This included the introduction of a number of new grant programmes, such as Heritage Enterprise, as well as moving to an outcomes-based approach to the assessment of all applications. The Board had also introduced a new targeted delegated grant programme – First World War Then and Now; to meet the high level of interest in projects relating to the centenary of the First World War.

After a significant rise in Lottery income in 2012–13, DCMS revised downwards their projections for future Lottery income in February 2014. In October 2013 Camelot launched a new £2 Lotto game to increase revenue for good causes; the impact of this change is not yet clear. In view of both these factors, and the level of over-commitment

against the balance in the NLDF account, the Board agreed a budget of £375million for 2014–15.

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 membership changed significantly during 2013–14, with six Trustees reaching the end of their terms, and five new Trustees commencing their appointment within the year. As a result of this significant turnover in Board membership, the Board agreed not to hold a review of its effectiveness during the year. The Board did review progress against the actions arising from the effectiveness review held in January 2013. They were satisfied that all actions identified in the 2013 effectiveness review had either been completed or were close to completion. Therefore, the Board considered that it continued to meet the requirements of 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.

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. This formal induction is continued through an on-going programme of events to support new Trustees. The large number of new Trustees appointed within a short space of time increased the importance of effective induction. 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 2014. 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 2013–14 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.

Our internal audit reports in the year looked at our upgraded procurement system with particular emphasis on major items of expenditure and reporting under the Government's transparency agenda; visits to some of our regional and country offices to explore financial and administrative matters such as health and safety as well as application processing; and the success in our bringing in-house the assessment and monitoring of the Repair Grants for Places of Worship scheme in England, which had been previously done for us by English Heritage (the programme has been renamed Grants for Places of Worship in 2013–14). 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 outcome of those internal audit reports.

No changes of any significance have been made to our systems in 2013–14 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 "controls that were suitably designed and operating effectively" 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 2013–14. 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 as well as supplying copies of its

meeting minutes. Neither internal nor external auditors had uncovered anything untoward during the year. The Committee concluded, at its most recent meeting in June 2014, that it had operated satisfactorily during 2013–14. The Board was pleased to hear this and endorsed this view at its June meeting. The Finance, Staffing 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 their highest level and our cost base, in real terms, remains at its lowest since we opened our country and regional offices over a decade ago.

As a result of the above, I believe that the Fund's control framework provides me with the level of assurance that I require. There is nothing of which I am aware that leads me to believe that our 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 2013–14.

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	11	12	11
Sandie Dawe	2	2	2
Angela Dean	11	12	12
Sir Roger De Haan	3	4	4
Kim Evans	11	12	12
Yinnon Ezra	9	10	10
Kathy Gee	4	4	4
David Heathcoat-Amory	3	4	4
Doug Hulyer	4	4	4
Hilary Lade	11	12	12
Alison McLean	9	10	10
Steve Miller	2	2	2
Richard Morris	11	12	12
Atul Patel	11	12	12
Dame Seona Reid	11	12	12
Ronnie Spence	8	8	8
Virginia Tandy	11	12	12
Tom Tew	3	4	4
Manon Williams	11	12	12
Christopher Woodward	6	6	6

Audit Committee attendance record

	Number of eligible meetings	Actual attendance
Yinnon Ezra	2	2
Doug Hulyer	1	1
Alison McLean	2	2
Ronnie Spence	2	2
Angela Dean	2	2
David Heathcoat-Amory	1	1
Sandie Dawe	1	1

Finance, Staffing and Resources Committee attendance record

	Number of eligible meetings	Actual attendance
Dame Jenny Abramsky	3	3
Kim Evans	3	3
Hilary Lade	3	3
Atul Patel	3	3
Carole Souter	3	3

Communications Committee attendance record

	Number of eligible meetings	Actual attendance
Dame Jenny Abramsky	2	2
Doug Hulyer	1	1
Yinnon Ezra	2	1
Kathy Gee	1	1
Virginia Tandy	1	1
Dame Seona Reid	2	1

Carole Souter
Chief Executive

3 July 2014

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 National Heritage Memorial Fund's Lottery Distribution Activities for the year ended 31 March 2014 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 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's Lottery Distribution

Activities; 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. 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 National Heritage Memorial Fund's Lottery Distribution Activities' affairs as at 31 March 2014 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 HM Treasury 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 HM Treasury directions made under the National Lottery etc. Act 1993 and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

Sir Amyas CE Morse

Comptroller and Auditor General

8 July 2014

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

Statement of Comprehensive Net Expenditure for the year ended 31 March 2014

	Notes	£'000	2013-14 £'000	2012-13 £'000
Proceeds from the National Lottery	10		332,037	387,150
NLDF investment income	10		1,552	2,071
			333,589	389,221
Less: amount transferred to the Olympic Lottery Distribution Fund by the Secretary of State for Culture, Media and Sport	10		(0)	(20,208)
			333,589	369,013
Interest receivable		55		57
Sundry income	2	120	175	66
Total income			333,764	369,136
New hard commitments	12	(407,868)		(370,677)
Hard de-commitments	12	15,124		7,046
			(392,744)	(363,631)
Staff costs	3	(10,698)		(10,093)
Depreciation and amortisation	7 and 8	(330)		(796)
Other operating charges	4	(8,139)		(7,816)
			(19,167)	(18,705)
Total expenditure			(411,911)	(382,336)
Operating deficit			(78,147)	(13,200)
Other comprehensive expenditure				
Net gain on revaluation of available for sale financial assets	17		0	0
Total comprehensive expenditure for the year ended 31 March 2014			(78,147)	(13,200)

All figures shown relate to continuing activities.
The notes on pages 32 to 47 form part of these accounts.

Statement of Changes in Equity for the year ended 31 March 2014

	Fair value reserve £'000	Income and expenditure account £'000
Balance at 31 March 2012	3,386	(242,330)
Changes in equity in 2012-13		
Release of fair value reserve to the income and expenditure account	(3,386)	3,386
Net gain on revaluation of investments	0	
Retained deficit		(13,200)
Balance at 31 March 2013	0	(252,144)
Changes in equity in 2013-14		
Release of fair value reserve to the income and expenditure account	0	0
Net gain on revaluation of investments	0	
Retained deficit		(78,147)
Balance at 31 March 2014	0	(330,291)

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 47 form part of these accounts.

Statement of Financial Position as at 31 March 2014

	Notes	2013-14 £'000	2012-13 £'000
Non-current assets			
Intangible fixed assets	7	494	69
Property, plant and equipment	8	997	1,096
Current assets			
Investments - balance at the NLDF	10	511,372	475,331
Trade and other receivables	9	3,500	4,303
Cash and cash equivalents		1,325	9,912
		516,197	489,546
Total assets		517,688	490,711
Current liabilities			
Administrative liabilities	11	(2,539)	(2,638)
Grant commitments within one year	12	(338,176)	(296,087)
Non-current assets plus net current assets		176,973	191,986
Non-current liabilities			
Grant commitments due in more than one year	12	(507,264)	(444,130)
Assets less liabilities		(330,291)	(252,144)
Represented by:			
Fair value reserve	17	0	0
Income and expenditure account brought forward		(252,144)	(242,330)
Transfer from fair value reserve		0	3,386
Movement in the year		(78,147)	(13,200)
Income and expenditure account carried forward		(330,291)	(252,144)
		(330,291)	(252,144)

The notes on pages 32 to 47 form part of these accounts.

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

3 July 2014

Statement of Cash Flows

for the year ended 31 March 2014

	Notes	2013-14 £'000	2012-13 £'000
Operating activities			
Cash drawn down from the NLDF	10	297,548	268,952
Cash from other sources	2	120	2,366
Cash paid to and on behalf of employees		(10,530)	(9,966)
Interest received on bank accounts		55	57
Cash paid to suppliers		(7,603)	(9,346)
Cash paid to grant and loan recipients	12	(287,521)	(244,715)
Net cash (outflow)/inflow from operating activities	14a	(7,931)	7,348
Investing activities			
Capital expenditure and financial investment	14b	(656)	(396)
(Decrease)/increase in cash and cash equivalents		(8,587)	6,952

Reconciliation of Net Cash Flows to Movement in Net Funds

for the year ended 31 March 2014

	Notes	2013-14 £'000	2012-13 £'000
(Decrease)/increase in cash and cash equivalents in the period		(8,587)	6,952
Changes in cash and cash equivalents	14c	(8,587)	6,952
Cash and cash equivalents at 1 April 2013		9,912	2,960
Cash and cash equivalents at 31 March 2014		1,325	9,912

The notes on pages 32 to 47 form part of these accounts.

Notes to the Accounts

for the year ended 31 March 2014

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 no reason to believe that DCMS has 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. Depreciation commences in the month after the asset is put into operation.

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 activity. At the end of the financial year, the proportion of joint costs apportioned to our Lottery distribution activities was 99% (2012–13: 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 in these accounts.

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. Almost all of our 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. See note 6 for further details.

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 our 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 Taxpayers' 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, this second decision is highly likely to be positive and so it is prudent to recognise the first-round or stage-one pass as a soft commitment at this time.

Applications received under the auspices of our third strategic plan (2008–2013) to the Heritage Grants and Parks for People programmes were not regarded as soft commitments at the time of the first-round pass. This was because Trustees expected to reject a significant proportion of applications at the second round. However, for a variety of reasons, the level of rejection was much lower and, from the start of the current strategic framework, Trustees now recognise a soft commitment at the time of the first-round pass. Remaining first-round passes from the third strategic plan period continue to be unrecognised as soft commitments.

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 National Lottery Financial Direction of the Secretary of State for Culture, Media and Sport. Interest rates and repayment terms are at the discretion of Trustees.

j) Joint grant schemes

Where NHMF operates a joint grant scheme partly on behalf of other organisations (currently Parks for People with the Big Lottery Fund (BLF) and Catalyst Endowments with DCMS), we do not recognise sums received from these bodies as income. In effect, funds received from these bodies are simply passed onto grantees or suppliers. Thus, we have only included in these accounts NHMF's share of scheme grant payments as we have passed BLF's or DCMS's share onto the grantee.

Similarly, we have only disclosed NHMF's share of operating expenditure for these schemes and have passed any funding for operating expenditure received from BLF and DCMS onto suppliers.

2. Sundry income

	2013-14 £'000	2012-13 £'000
Repayment of grants	120	66

3. Staff costs and numbers

	2013-14 £'000	2012-13 £'000
Salaries	8,524	7,961
Employer's NI payments	625	566
Payments to pension scheme	1,502	1,422
Temporary staff costs	47	144
	10,698	10,093

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

2013-14	Grant applications	Finance and corporate services	Strategy and business development	Communications	Total
Permanent staff	161	33	24.25	18	236.25
Secondees, contract staff and apprentices	13	3	3	2.5	21.5
Total	174	36	27.25	20.5	257.75

2012-13	Grant applications	Finance and corporate services	Strategy and business development	Communications	Total
Permanent staff	154	34.5	24	17	229.5
Secondees and contract staff	9	2	2	2	15
Total	163	36.5	26	19	244.5

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.

2012-13 figures have been revised following the discovery of an error in the method of calculation.

4. Operating deficit

The operating deficit is stated after charging the following:

	2013-14 £'000	2012-13 £'000
Auditor's remuneration	39	39
Payments under operating leases		
- leasehold premises	917	1,055
- hire of office equipment	0	16

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

	2013-14 £'000	2012-13 £'000
Accommodation	1,531	1,738
Postage and telephone	464	472
Office supplies, print and stationery	526	505
Travel, subsistence and hospitality – Trustees	118	102
Travel, subsistence and hospitality – staff	374	378
Professional fees – grant-related	2,312	2,124
Professional fees – non-grant-related	1,515	1,157
Communications	699	745
Office equipment	347	310
Staff training	152	112
Sundry expenses	101	173
	8,139	7,816

5. Recharged costs

As mentioned in note 1 to these accounts, NHMF is required to disclose separately its Lottery activities in its Lottery distribution accounts. Many of the overhead costs incurred at the head office in London benefitted both our grant-in-aid and Lottery distribution activities. At the

end of the financial year, the proportion of joint costs apportioned to Lottery distribution was 99% (2012–13: 99%). All grant-in-aid activities take place at the head office of Holbein Place, London. The costs of operating all other offices are fully recharged to Lottery distribution.

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 6.25% of pensionable earnings for classic and 3.5% and 8.25% for premium, classic plus and Nuvos. Employee contribution rates increased in April 2012 and April 2013 as outlined in Employer Pensions Notice 314 and 347. The size of the percentage increase depended upon salary. Further increases to employee contributions will apply from 1 April 2014 as per Employer Pensions Notice 367.

Benefits in classic accrue at the rate of $\frac{1}{80}$ 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 uprated 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 four members of staff with a partnership pension account.

No member of staff retired early on health grounds during 2013–14.

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 2013–14, employer’s contributions of £1,501,896 (2012–13: £1,421,668) 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/pensions

The employer’s payments were calculated on the basis of salary banding as per Employer Pensions Notice 350.

Salary in 2013–14	% in 2013–14
£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	
	2013–14 £'000	2012–13 £'000	2013–14 £'000	2012–13 £'000	2013–14 £'000	2012–13 £'000
Cost at start of year	250	250	1,466	1,405	1,716	1,655
Additions	131	0	339	61	470	61
At end of year	381	250	1,805	1,466	2,186	1,716
Amortisation at start of year	250	166	1,397	941	1,647	1,107
Charge for the year	0	84	45	456	45	540
At end of year	250	250	1,442	1,397	1,692	1,647
Net book value						
At start of year	0	84	69	464	69	548
At end of year	131	0	363	69	494	69

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 NHMF by software developers. No internally generated costs have been capitalised. Additions have been amortised over their expected useful lives, which is the end of the period that our strategic framework covers; i.e. the period to 31 March 2018.

A review of the current cost values of intangible fixed assets, at 31 March 2014, 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	
	2013-14 £'000	2012-13 £'000	2013-14 £'000	2012-13 £'000	2013-14 £'000	2012-13 £'000	2013-14 £'000	2012-13 £'000
Cost at start of year	1,164	1,347	2,197	2,218	61	61	3,422	3,626
Additions	2	168	164	167	20	0	186	335
Disposals	0	(351)	(257)	(188)	0	0	(257)	(539)
At end of year	1,166	1,164	2,104	2,197	81	61	3,351	3,422
Depreciation at start of year	666	927	1,600	1,623	60	59	2,326	2,609
Charge for the year	108	90	174	165	3	1	285	256
Adjustment on disposal	0	(351)	(257)	(188)	0	0	(257)	(539)
At end of year	774	666	1,517	1,600	63	60	2,354	2,326
Net book value								
At start of year	498	420	597	595	1	2	1,096	1,017
At end of year	392	498	587	597	18	1	997	1,096

The Trustees have considered the current cost values of property, plant and equipment. A review of the current cost values at 31 March 2014 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.

	2013-14 £'000	2012-13 £'000
IT and other equipment		
Cost at start of year	160	160
Additions	0	0
Disposals	(115)	0
At end of year	45	160
Depreciation at start of year	141	125
Charge for the year	9	16
Adjustment on disposal	(115)	0
At end of year	35	141
Net book value		
At start of year	19	35
At end of year	10	19

Obligations under finance leases are:

	2013-14 £'000	2012-13 £'000
IT and other equipment		
Amounts for leases expiring in one year	0	9
Amounts for leases expiring in years two to five	10	10
	10	19

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

9. Trade and other receivables

	2013-14 £'000	2012-13 £'000
Prepayments and accrued income	3,323	4,237
Loans	100	0
Other receivables	30	22
Staff advances	47	44
	3,500	4,303

The loan is with a heritage organisation and is repayable in two tranches in 2018 and 2023. No interest is being charged on the loan. There were no other sums due in more than one year (2012-13: £0).

Of the above sums, £2,744,000 was owed by central government bodies. At the year end, 51 members of staff had outstanding payroll advances (at 31 March 2013 there were 51).

10. Investments

Movement in balances at the NLDF:

	2013-14 £'000	2012-13 £'000
Current cost at start of year	475,331	375,270
Income received from the National Lottery	332,037	387,150
Funds drawn down by NHMF	(297,548)	(268,952)
Funds transferred to the Olympic Lottery Distribution Fund	(0)	(20,208)
Investment return	1,552	2,071
Unrealised profit on investment	0	0
Current cost at end of year	511,372	475,331

The accounts for 2012-13 were prepared using an interim certificate issued by DCMS. Subsequent information was made available by DCMS, after the accounts were signed, which revised the balance to £469,533,000. The difference between the two valuations as at 31 March 2013 is shown as a reduction in the share of operator proceeds in 2013-14. Net operator proceeds would have been £337,835,000 without this adjustment.

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

	2013-14 £'000	2012-13 £'000
Operating payables	764	604
Other payables including taxation and social security	393	364
Accruals and deferred income	1,382	1,670
	2,539	2,638

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

	2013-14 £'000	2012-13 £'000
Balances owing to central government	397	364
Balances owing to local authorities	0	14
Balances owing to public corporations	0	0
Balances external to government	760	590
	1,157	968

12. Grant commitments

Hard commitments

	2013-14 £'000	2012-13 £'000
Brought forward at start of year	740,217	625,940
Transfers from soft commitments	407,868	370,677
De-commitments	(15,124)	(7,046)
Commitments paid	(287,521)	(249,354)
Carried forward at end of year	845,440	740,217

Soft commitments

	2013-14 £'000	2012-13 £'000
Brought forward at start of year	100,707	74,696
Soft commitments made	690,637	398,546
Soft de-commitments	(9,766)	(1,858)
Transfers to hard commitments	(407,868)	(370,677)
Balance carried forward at end of year	373,710	100,707

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

Hard commitments

	2013-14 £'000	2012-13 £'000
In one year	338,176	296,087
In two to five years	507,264	444,130
In more than five years	0	0
	845,440	740,217

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

	2013-14 £'000	2012-13 £'000
Balances owing to central government	92,283	98,630
Balances owing to local authorities	309,860	273,317
Balances owing to public corporations	260	203
Balances owing to NHS trusts	22	5
Balances external to government	443,015	368,062
	845,440	740,217

13. Commitments

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

	2013-14 £'000	2012-13 £'000
Short-leasehold property		
Expiring in one year	133	1
Expiring in years two to five	996	265
Expiring thereafter	8,592	10,611
	9,721	10,877
Other operating leases		
Expiring in one year	0	0
Expiring in years two to five	0	0
Expiring thereafter	0	0
	0	0

In 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.

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.

NHMF 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 (outflow)/inflow from operating activities

	2013-14 £'000	2012-13 £'000
Operating deficit	(78,147)	(13,200)
Add back non-cash items:		
– depreciation	330	796
– loss on disposal of intangible fixed assets and property, plant and equipment	0	0
– (decrease)/increase in other provisions	(0)	(0)
– movement in fair value reserve	0	0
– increase in grant commitment reserve	105,223	114,277
– increase in balance at NLDF	(36,041)	(100,061)
Decrease in non-interest receivables	803	5,254
(Decrease)/increase in non-capital payables	(99)	282
Net cash (outflow)/inflow from operating activities	(7,931)	7,348

b) Capital expenditure

	2013-14 £'000	2012-13 £'000
Payments to acquire intangible fixed assets	470	61
Payments to acquire property, plant and equipment	186	335
	656	396

c) Analysis of changes in net funds

	1 April 2013 £'000	Cash flows £'000	31 March 2014 £'000
Cash at bank	9,912	(8,587)	1,325

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 three entities for which DCMS is regarded as the sponsor department – the Big Lottery Fund, the Arts Council of England and English Heritage.

NHMF operates the Lottery grant programme, Catalyst Endowments. DCMS agreed to contribute £15million of the total £25.5million of awards made under the programme in 2012-13. During 2013-14, we paid £2.3million on behalf of DCMS all of which had been reimbursed to us by the year-end. We also have a memorandum of terms of understanding with DCMS relating to accommodation for our Birmingham office for the period ending 31 March 2015. The total expected spend under the agreement is £68,667 and there was nothing owed at 31 March 2014.

The Big Lottery Fund contributed towards the grants made under our Parks for People programme and also towards the operating costs of that programme. At the year end, the Big Lottery Fund owed NHMF £2,730,645, representing £97,315 for operating costs and £2,633,330 for their share of grant payments. We also paid the Big Lottery Fund for a number of activities in the year; most notably, the Celebrate Scotland grant programme, which is operated on behalf of a number of Lottery distributors. We paid them £129,000 in the year including £72,000 to reimburse them for grant payments made on our behalf. We owed them nothing at the year-end.

We used English Heritage to review some of our literature and provide project monitoring services on one of our grants; £1,260 was owed at the year end. We contributed towards the cost of some research with the Arts Council of England; nothing was owed at the year end. There have also been material transactions with the Cabinet Office who carried out pension administration on our behalf; nothing was owed at the year end.

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 £70,000 per annum at 2013-14 price levels. At 31 March 2014, we owed CCC around £1,150 for over-claimed 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 2013–14, 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

Tate Gallery

A grant of £15,800,000 – Aspire – Constable ‘Salisbury Cathedral from the Meadows’.
Virginia Tandy declared an interest as she was commissioned by the Tate Gallery to chair their Artists’ Rooms project.

Exmoor National Park Authority

A grant Increase of £161,600, to make a total grant of £662,500 – Exmoor Moorland Landscape Partnership.

Doug Hulyer declared an interest as Natural England, of which he was a board member, were involved with the application, which also fell within his area of oversight at Natural England.

The Imperial War Museum

A grant of £5,000,000 – First World War Cultural Programme.

Virginia Tandy declared a conflict of interest as she was involved with bids for the evaluation of the programme.

Blaenau Gwent County Borough Council

A grant of £1,550,000 – Tredegar Townscape Heritage Initiative.

Manon Williams declared conflicts of interest arising from her role as the Welsh Government’s Chief Executive of Tourism and Marketing for Wales.

City and County of Swansea

A grant of £935,700 – Dylan Thomas Exhibition.

Manon Williams declared an interest as her Welsh Government department, Visit Wales, was involved in delivering the project and had contributed partnership funding to the project.

The Archdiocese of Cardiff

A grant of £80,000 and a first round pass of £1,126,000 – Cornerstone: Archdiocese of Cardiff.

Manon Williams declared an interest because her partner was the treasurer of the archdiocese.

East Devon District Council

A grant of £56,500 and a first round pass of £521,000 – Natural Seaton – The Living Jurassic Coast.

Doug Hulyer reported a conflict as he had been involved with applicant and local community regarding this project and he also chaired the project steering group.

Committee members

Luton Cultural Services Trust

A grant of £78,200 – Taking the next step: Improving heritage commercialisation at Luton Culture.
Maggie Appleton is the Chief Executive of Luton Cultural Services Trust.

York Archaeological Trust

A grant of £10,000 – A&E heritage rescue: researching the long-lost past of Attenborough and the Erewash.

John Everitt is the Chief Executive of the Nottinghamshire Wildlife Trust which is a partner in the project with the York Archaeological Trust.

Avenue House Trust

A grant of £101,600 and a first round pass of £1,893,700 – Avenue House Estate restoration project.

Jon Sheaff was a consultant for the restoration project.

Legasee Education Trust

A grant of £62,900 – Keeping Britain Afloat.

Bill Ferris is the Chief Executive of Chatham Historic Dockyard which was a partner in the project.

Cornwall Council

A grant of £17,500 – Young Ambassadors: in Cornwall's Museums.

Tamsin Daniel is an employee of Cornwall Council.

Caliban (Cornwall) CIC

A grant of £58,400 – Plen an Gwari: the playing places of Cornwall.

Tamsin Daniel gave advice to the grantee.

Monmouthshire County Council

A grant of £23,500 – Building support for a sustainable future for Monmouthshire Museums

Megan de Silva is an employee of Monmouthshire Museums Service. Megan was not involved in the project.

Museum of London Archaeology

A grant of £75,500 and a first round pass of £1,351,100 – CITiZAN – The Coastal & Intertidal Zone Archaeological Network.

David Stocker declared a conflict of interest as he is a trustee of the Council for British Archaeology which was a partner in, and would benefit from, the project. Mike Heyworth declared an interest as his employer, the Council for British Archaeology, was likely to benefit.

London Borough of Wandsworth

A grant of £1,915,000 – Living Wandle

Jennifer Ullman declared a conflict of interest as she had co-written the first round application.

London Borough of Wandsworth

A grant of £273,200 and a first round pass of £1,177,400 – Tooting Common Heritage Project.

Jennifer Ullman declared an interest as she was an employee of the Council and had seen the bid before it was submitted.

The Royal Parks

A grant of £334,200 and a first round pass of £3,443,600 – Brompton Cemetery Conservation Project.

Wesley Kerr declared a conflict of interest as he was a member of the board of the Royal Parks.

Ben Uri Gallery

A grant of £14,500 and a first round pass of £289,400 – 100 Years of Ben Uri.

Hilary Carty declared a conflict of interest as the exhibition partner, the Inigo Rooms, was part of the Cultural Institute at King's College London for whom she was undertaking paid work.

Northumberland Wildlife Trust

A grant of £26,500 and a first round pass of £385,200 – Dynamic Druridge.

Chris Mullin declared an interest as he was President of the applicant organisation.

Newcastle University

A grant of £154,000 and a first round pass of £2,400,000 – Revitalising Newcastle's Hatton Gallery.

Lindsay Allason-Jones declared an interest as an ex-employee of Newcastle University and she is on the GNM Board, which administered the Hatton Gallery.

National Trust

A grant of £164,400 and a first round pass of £2,881,400 – Quarry Bank.

Tiffany Hunt declared an interest as a former Regional Director of the National Trust.

Cheshire East Council

A grant of £76,600 and a first round pass of £616,700 – Tatton Dale Farm Heritage.

Tiffany Hunt declared an interest in Tatton Dale Farm as a former Regional Director of the National Trust.

The Reader Organisation

A grant of £115,200 and a first round pass of £1,861,900 – Connect at Calderstones.

Ivan Wadson declared an interest as a former director of the applicant.

Historic Scotland

A grant of £25,500 and a first round pass of £3,467,000 – Historic Scotland National Conservation Centre.

Eleanor McAllister declared a conflict because she is an Advisory Member for Historic Scotland.

Scottish Natural Heritage

A grant of £29,800 and a first round pass of £844,000 – Scottish Wildcat Conservation Project.

Simon Pepper reported a conflict as Scottish Natural Heritage, his employer, was the applicant.

The New Lanark Trust

A grant of £94,000 and a first round pass of £1,500,500 – Completion of Restoration and Interpretation of Historic Millworkers' Housing at New Lanark World Heritage Site.

Willie Macleod declared an interest as he was a trustee for New Lanark Trust.

RSPB Scotland

A grant of £1,900,000 – Inner Forth Landscape Initiative.

Simon Pepper declared a conflict as Scottish National Heritage, of which he was a Board member, was chairing the partnership board.

Kent County Council

A grant of £1,310,000 – Folkestone Townscape Heritage Initiative

Paul Hudson declared an interest as he had been asked to chair the strategy group.

New Forest National Park Authority

A grant of £161,100 and a first round pass of £2,838,000 – Our Past, Our Future.
Debbie Tann declared an interest as the Hampshire and Isle of Wight Wildlife Trust, of which she was Chief Executive, was a partner in the project.

Isle of Wight Area of Outstanding Natural Beauty Partnership

A grant of £103,000 and a first round pass of £1,547,500 – Down to the Coast – East Wight.
Debbie Tann declared an interest as the Hampshire and Isle of Wight Wildlife Trust, of which she was Chief Executive, was a partner in the project.

South Downs National Park Authority

A grant of £48,300 and a first round pass of £1,471,600 – Heathlands Reunited.
Debbie Tann declared a conflict of interest as she is the Chief Executive of a partner organisation.

Cornwall Council

A grant of £386,800 and a first round pass of £9,408,700 – Kresen Kernow: A new home for the stories of Cornwall.

Hilary Bracegirdle declared that the Royal Institution of Cornwall, her employer, had sent a letter of support confirming that her museum would wish to work with the Kresen Kernow project.

Bristol Cultural Development Partnership

A first round pass of £138,400 – Bristol 2014: The City and Twentieth-Century Conflict.
Julie Finch declared a conflict as her employer, Bristol City Council, were one of the partner organisations that would receive funding.

Cornwall County Council

A grant of £55,100 and a first round pass of £805,700 – King Edward Mine Museum.
Tamsin Daniel reported a conflict as she worked for the applicant.

Plymouth City Museum and Art Gallery

A grant of £326,300 – Reynolds' portrait & sketchbook acquisition.
Hilary Bracegirdle declared a conflict of interest as she had written the application and was an employee of Plymouth Museum.

Pembrokeshire County Council

A grant of £1,200,000 – Haverfordwest Townscape Heritage Initiative Phase 2.
Ted Sangster declared a conflict of interest as he was a director of one of the partner organisations, Pembrokeshire Business Initiative.

Powys County Council

A grant of £51,000 and a first round pass of £227,700 – Powys War Memorials Project 2014–2018, A Mark of Respect.
Carys Howell declared a conflict of interest as she was a member of the Brecon Beacons National Park Authority, which was a partner in the application.

St Giles Parochial Church Council

A grant of £46,900 and a first round pass of £572,100 – St Giles Heritage Churchyard.
Alan Taylor declared an interest as he was a member of the Diocesan Advisory Committee which had recommended permission for the project and line managed the churches' support officer at English Heritage.

Shropshire Council

A grant of £12,823,300 – Ditherington Flax Mill Maltings, International Heritage site at the heart of the community.

Alan Taylor declared an interest as his employer, English Heritage, owned Ditherington Flax Mill Maltings.

Compton Verney House Trust

A grant of £179,600 and a first round pass of £2,296,900 – Compton Verney Chapel and landscape restoration project.

Ian Grosvenor declared an interest as his partner was a trustee of the applicant.

Worcestershire County Council Archive and Archaeology Service

A grant of £353,200 – Worcestershire World War One Hundred.

Ian Grosvenor declared an interest as his employer, the University of Birmingham, was a partner with the Hive (the delivery partner) in a bid for collaborative research funding for a project on the First World War.

The West Midlands Historic Buildings Trust

A grant of £1,025,000 – the Lye & Wollescote Cemetery Chapels building conservation project. Alan Taylor declared an interest as he knew and had worked closely with the applicants on other schemes.

Staff

There were none.

16. Financial instruments

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

17. Fair value reserve

	2013-14 £'000	2012-13 £'000
At start of year	0	3,386
Realisation of revaluation gain on NLDF balance	0	(3,386)
Year-end revaluation gain on NLDF balance	0	0
At end of year	0	0

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. Statement of losses

HLF made losses through the write-off of one grant totalling £15,974 in the year (2012-13: five losses to a total of £105,550).

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.”

In 2013–14 demand for Lottery funding for heritage has been at its highest level since 1998, at all levels of grant. As a result of continued strong ticket sales we were able to commit £690.6million in awards, against applications worth £1,028million (up 16% on 2012–13).

This was the first year of operation under the strategic framework for 2013–2018, *A lasting difference for heritage and people*. The principles and themes underlying changes to our strategy, programmes and targeted initiatives which this introduced were shaped by the strategic consultation held in 2011, to which over 2,000 people, from all parts of the heritage sector and the general public, responded.

We continued to support the sector in a challenging operating environment, launching new programmes and initiatives to address the need to build greater resilience and champion innovation in heritage organisations, to support growth, and to fill identified skills gaps.

Awards under the Catalyst capacity building umbrella and small grants programmes in 2013–14 will deliver more than 15,000 training opportunities to support heritage organisations in attracting more private investment and help over 120 organisations

to strengthen their approach to private fundraising and income generation with additional resources, mentoring and skills development. Start-up Grants, launched in April 2013, will support communities taking on new responsibility for heritage assets to set out on the right footing with advice on appropriate governance and strategic options, while Transition Funding is now available to support past grantees who need to review their current business models, plans and strategies and make changes. In partnership with NESTA and Big Lottery Fund, we launched the Re-thinking Parks initiative in November 2013 to stimulate innovation in the development of new models of park management and income generation.

The new Heritage Enterprise programme has attracted strong interest from across the UK in its first year, with awards to the value of £28.2million. The second Skills for the Future programme was also heavily over-subscribed. Grants totalling £20.3million to 39 projects will deliver high-quality work-based training places for over 900 trainees in heritage.

Our consultation showed strong support for an initiative to enable museums, libraries and archives to take a strategic approach to collecting, and we launched the second Collecting Cultures programme in November 2013, with awards to be made in 2014–15. We have also ensured that important national and local events and anniversaries are marked and better understood through our support for projects commemorating the First World War and a £10million commitment to funding for important anniversaries through all programmes. In 2013–14 we awarded £31.8million to 468 First World War Centenary projects, of which 339 were small grants to communities across the UK under our First World War: Then and Now programme launched in May 2013.

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. The current strategic framework was shaped by extensive consultation, and all our application materials and processes are tested with customers at all levels of grant.

We have continued our policy of open recruitment to our committees in all areas of England, and Scotland, Northern Ireland and Wales, which make decisions on grants between £100,000 and £2million, and in 2013–14 appointed 23 new committee members. Since 2008 we have regularly involved young people in the work of HLF and in 2013–14 continued this with the development of short films using the experience of young people delivering Young Roots projects to encourage others to apply.

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.”

Continuing our commitment to broadening audiences for heritage, as part of our current strategic framework, one of the project outcomes we assess against is that, with our investment, ‘more people and a wider range of people will have engaged with heritage’. In our Heritage Grants programme, this outcome is weighted in our assessment of grant requests over £2million, and we ask applicants who pass our first-round process to set out how they will reach new audiences in a detailed activity plan. At the lower end of our grant ladder we have created new community grants programmes to further widen access to our funding to new applicants and those that are new to heritage.

This year we have refined and simplified our good practice guidance to help our applicants understand the barriers that some groups might face in accessing heritage and how these barriers can be overcome. The

outreach and development work of our local operational teams, our updated website and programme leaflets and the case studies we publish 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 skilled staff, targeted marketing, improved access and more cafes and other facilities is proven to attract significant new audiences to heritage.

We have retained the corporate goal in our business plan to increase diversity in our grant giving and, specifically, have seen the amount of investment in projects led by organisations representing the interests of black, Asian and minority ethnic (BAME) communities increase once again over the past year. Since 1994 we have awarded more than £176million to over 3,300 projects that explore and celebrate the cultural diversity of the UK; 59% of these projects were led by BAME groups. 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, and our Equality Steering Group, chaired by our Chief Executive. One focus for staff training this year has been the theme of diversity and the First World War.

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 majority of the projects we fund, whether involved in school or family visits to heritage sites, as participants in holiday activity programmes, or as work placement students or volunteers. Many projects 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, for example in museums or nature reserves. Since 1994, we have funded over 1,200 heritage education posts and the creation of more than 660 spaces for learning, including indoor and outdoor classrooms, film theatres and natural play 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 continued as key partners in the Cultural Education Partnership Group with Arts Council England, English Heritage and the British Film Institute to encourage new collaborations at a local level to deliver high-quality cultural learning.

Our Young Roots funding programme is targeted at young people aged 11–25 and encourages them to lead innovative heritage projects. Since 2002, we have made over 1,500 Young Roots awards, and this year invested £3.2million in 95 projects across the UK. These projects engage a wide range of young people, including those living in rural communities and urban housing estates, disabled young people and those who are not in education, employment or training. Linked to the programme, this year we have launched specific new guidance *How to involve young people in heritage projects* aimed at those working with young people aged 11–25, and worked with young people to develop three short films to promote the Young Roots programme to more groups. They will be disseminated by our development teams and through a partnership with the Youth Media Agency; they have been widely circulated through the Young Roots Facebook page and our YouTube channel.

We are committed to evaluating our funding and to sharing practice amongst grantees. We ran a research project this year which interviewed a small group of young people some years after their participation in a Young Roots project and noted the role of the project in building confidence, skills and awareness of heritage. The period of this report also saw the launch of our new online community, a pilot initiative to test

the ways in which we can support our applicants to share learning from their projects. We have developed a dedicated space for Young Roots grantees where they have begun to share resources and outcomes.

e) Communities

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

Our approach to heritage remains broad and progressive and we ask communities to define for themselves what they most value from the past when they make applications through our open programmes. As ever this year we have funded a wide range of communities – place-based geographic communities, communities with a shared cultural or social background, and communities of interest, ranging from waterways enthusiasts to people interested in learning about heritage dance forms.

In 2013–14 we launched a new open grants programme, Sharing Heritage, designed to help local groups explore, share and celebrate their heritage through events, exhibitions, festivals and celebrations. Offering grants of £3,000–10,000 based on a new simple application form, we have experienced high demand for this programme in its first year. We have funded a wide range of diverse projects and communities across the UK, including new applicants. Demand has also remained high for the Our Heritage grant programme, funding community projects below £100,000.

Many of the 534 projects funded by the All Our Stories programme in 2012 have completed delivery this year, actively engaging thousands of people who are new to heritage. They have been supported by researchers from 18 universities funded by our partners, the Arts and Humanities Research Council. To create a legacy for the programme and to celebrate the achievements of the community groups, we have also worked with Historypin to help our grantees create a digital record of their project.

This community history platform clearly demonstrates the diversity of heritage and groups that we fund, and we hope it will encourage applications to our small grants programmes in the future.

f) Volunteers

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

Volunteering activity is reflected in our outcomes framework and continues to feature prominently in the projects we fund across the full range of our grant programmes, from smaller volunteer-led projects under Sharing Heritage to large-scale volunteering initiatives embedded in Heritage Grants. 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 a diverse range of volunteers make a lasting difference to their communities. The Parks for People Impact Evaluation report published this year has enabled us to examine more closely the impact of volunteering specifically within our parks projects. With ongoing interest in volunteering across the heritage sector, we have been able to share insights from our research and promote good practice through contributing to a range of conferences and workshops.

As new models for sustainably managing heritage are sought in the context of on-going public sector cuts, 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.

The Start-up Grants programme introduced this year has attracted applications from volunteer-led organisations wishing to take on management of local heritage assets, and early research suggests that this funding is working effectively, enabling organisations to take projects forward by establishing an appropriate constitutional framework. To better understand and respond to the wider implications of this trend, we have commissioned research to explore the experience of volunteers taking on leadership roles within a sample of funded projects involving asset transfer. We will draw on this research to offer effective guidance to projects as volunteers play an increasingly prominent role in leadership and delivery across the sector.

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 has the skilled workforce it needs to be sustained in the longer term. Grantees of our new Skills for the Future initiative this year range from the Prince’s Regeneration Trust, seeking to develop the construction and business skills of unemployed young people in Scotland, to the Ulster Wildlife Trust, training people to care for specialist habitats and species. Some grantees are developing innovative training courses to meet emerging needs in the heritage sector, for example, The Bodleian Library, which will train people in archiving ‘born-digital’ material.

The grantees funded through our previous rounds of Skills for the Future and our Training Bursary programme continued to deliver high-quality outcomes for individual trainees and the sector as a whole. The Training Bursary programme has funded 950 conservation-based training placements, with over 75% of the trainees achieving jobs in the heritage sector. To date, over 1,000 long-term placements have been

created through the Skills for the Future programme in a wide range of heritage skills including conservation of digital media and archives, horticulture and landscape management.

We have completed an interim evaluation of Skills for the Future this year. Trainees report very high satisfaction rates with the programme and the training they have received. Project managers tell us that 75% of trainees have gone on to heritage-related jobs or further training as a result of our investment, despite the challenging economic climate. They report the benefits to organisations and the sector that the programmes bring: an increased number of heritage qualifications available to the sector; more qualified assessors to help mainstream and sustain heritage training in the longer term; a heritage workforce that is better equipped to deliver work-based training; and, in general, a more diverse workforce.

Beyond our targeted skills initiatives, we encourage and fund skills development for staff and volunteers involved in all of our projects to ensure they are delivered to the highest standard. In our strategic framework the outcome 'people will have developed skills' is weighted in Heritage Grants. We know that 86% of our Heritage Grants projects deliver training, a significant number providing apprenticeships or work-based training opportunities, and the vast majority (88%) delivering enhanced training for volunteers.

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 now takes account of the outcomes that projects will deliver for heritage, people and communities. 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.

We provide some support for heritage in private ownership through the Our Heritage programme (grants of £10,000–£100,000) provided that applicants can demonstrate that there is clear public enthusiasm for their project and a genuine need for Lottery investment. Under our new Heritage Enterprise programme the case for Lottery funding depends on there being a 'conservation deficit' – where a building's current value and the cost of bringing it back into use are greater than its post-project value. These approaches are designed to ensure that public benefits from the projects we invest in will outweigh private gain.

i) Sustainable development

"The need to further the objectives of sustainable development."

All applicants submitting applications for funding of more than £2million are now covered by our carbon footprinting policy, which requires them to undertake a carbon footprint assessment of the project proposal during the development stage. These assessments will increasingly become a part of the overall process of project appraisal during the course of 2014–15.

Carbon footprinting is only one part of the assessment we make of the likely environmental impacts of projects. Since 2008 we have required applicants to 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.

In 2013–14 we evaluated our environmental impact guidance, five years after it was introduced. Overall, we found the guidance is providing relevant and useful information to applicants, and is informing the way they plan and design their projects. Since most projects covered by the guidance are still in the early stages of delivery, we will continue

to monitor the costs and benefits of environmental measures – the full evidence for which will not be available until projects have been complete for several years.

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 over two-fifths (42%) 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 one percentage point lower than 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 working in priority areas identified for the current 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 62 (15% of the total).

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 2013–14 we have worked with Government, the Imperial War Museums, the Royal British Legion, and many other bodies on activities to mark the Centenary of the First World War. With Arts Council England we are jointly funding the UK’s major cultural programme, 14–18 NOW. We are also working in collaboration with the Arts and Humanities Research Council to provide expert support and research help to community groups applying to our programme for Centenary projects, First World War: Then and Now.

We continue to work in partnership with the Big Lottery Fund to deliver our Parks for People programme in England and work collaboratively with English Heritage, Cadw and Historic Scotland on our Grants for Places of Worship programme.

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 to this for our current strategic framework. Respondents to our 2011 consultation highlighted anticipated difficulties in raising partnership funding in a period of economic challenge so we have maintained our minimum

requirement in our main open programme Heritage Grants of 5% in cash or kind for grants up to £1million, and a minimum of 10% on grants over £1million. We will review this 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.”

We have not changed our approach to this for our current strategic framework.

- a) The projects we support are specific and time-limited. We limit our support to a maximum of five years for projects involving activities. Three-quarters of projects are completed on schedule.
- b) We seek information from applicants about the extent to which the projects they put forward present a sound case for investment, will deliver outcomes for heritage, people and communities, are viable and financially sustainable, and will provide good value for money. Our assessment may include expert advice on key aspects of the application if needed.
- 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.”

- a) For the current strategic framework, the application form for our Heritage Grants programme continues to require 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, we now 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 2014

Indicators of service level	Year to March 2014 (average)	Year to March 2013 (average)	Year to March 2012 (average)
1 Decisions will be placed on HLF's website within 10 working days of the meeting	100%	100%	97%
2 Grant payments will be made to the applicant within 10 working days from receipt of the payment request	6 days	7 days	7 days
3 An annual survey of grant applicants will show an 80% satisfaction rating with HLF's service for assessment, and 85% for monitoring	Assessment 80%	Assessment 80%	Assessment 80%
	Monitoring 89%	Monitoring 86%	Monitoring 87%
4 HLF applications will receive a decision within the following timescales:			
Heritage Grants			
• first round	14 weeks	15 weeks	14 weeks
– within 12 weeks plus time to next meeting			
• second round	15 weeks	15 weeks	14 weeks
– within 12 weeks plus time to next meeting			
• major grants	13 weeks	Not applicable	Not applicable
– within 12 weeks plus time to next meeting			
Heritage Enterprise			
• first round	12 weeks	Not applicable	Not applicable
– within 12 weeks plus time to next meeting			
Landscape Partnerships			
• second round	14 weeks	17 weeks	15 weeks
– within 16 weeks plus time to next meeting			
Grants for Places of Worship			
• first round	14 weeks	20 weeks	20 weeks
– within 12 weeks plus time to next meeting			
• second round	8 weeks	8 weeks	7 weeks
– within 16 weeks plus time to next meeting			
Skills for the Future			
• second round	10 weeks	Not applicable	Not applicable
– within 8 weeks plus time to next meeting			
Townscape Heritage Initiative			
• second round	15 weeks	14 weeks	14 weeks
– within 12 weeks plus time to next meeting			
Catalyst Umbrella			
• second round	10 weeks	Not applicable	Not applicable
– within 8 weeks plus time to next meeting			
First World War: then and now			
– within 8 weeks plus time to next meeting	8 weeks	Not applicable	Not applicable
Our Heritage			
– within 8 weeks plus time to next meeting	7 weeks	8 weeks	8 weeks
Sharing Heritage			
– within 8 weeks plus time to next meeting	7 weeks	Not applicable	Not applicable
Young Roots			
– within 8 weeks plus time to next meeting	7 weeks	8 weeks	9 weeks

Commentary on our indicators of service level

The customer performance indicators show another year of good performance in all areas. Maintaining good customer service in a year when we have received a record number of applications reflects very well on our staff.

Indicator 1

We continued to meet our target of posting decisions on our website in 10 days.

Indicator 2

We made over 7,200 grant payments this year, which was 11% more than last year. The average time taken was quicker than last year 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 and ensures that their contractors can be paid quickly.

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 despite the fact that the higher number of applications inevitably means that we have to reject more of them. Satisfaction with our service after we have made an award showed a significant improvement over last year.

Indicator 4

At the start of the year, we entered into the period of our current strategic framework, which introduced new processes and programmes. Those new processes brought with them reductions in the time we take to give an applicant a decision for many of our grant programmes. We have met published processing times for all our grant programmes, despite the rise in the number of applications, because we recognise the importance of this to our applicants.

Progress on Projects Over £5million

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

Project title	Region or country	Total project cost (£)	Grant amount (£)	% of grant paid to date	Latest report
Aberdeen Art Gallery	Scotland	30,183,918	10,000,000	0	A first-round pass awarded April 2013, including £126,000 for development phase. This phase is now underway and a decision on the second-round award is anticipated to be presented to the Board in summer 2014.
Alexandra Palace, Haringey	London	23,918,767	16,799,900	0	A first-round pass awarded April 2013, of which £844,800 is for development. Development phase started with appointment of design team. Decision on second-round award anticipated towards the end of 2014-15.
Aspire, Tate Britain	London	24,273,455	15,800,000	97	Grant awarded April 2013 for the purchase of <i>Salisbury Cathedral from the Meadows</i> by John Constable (1776-1837) for Tate Britain, with an associated programme of supporting activities from 2013-18 to establish a national network for Constable Studies. The painting is currently on display at the National Museum of Wales.
Auckland Castle	North East	17,356,763	10,000,000	0	A first-round pass awarded April 2013 for the opening up of the castle to the public for the first time, of which £1,000,000 is for development. Development has started with the appointment of a professional team and the recruitment of volunteers. A decision on the second-round award is anticipated towards the end of 2014-15.
Buxton Crescent & Spa	East Midlands	33,180,338	13,030,000	19	Enabling works focussing on areas of highest risk, such as preparing the basement, complete. Delays have resulted in cost increases. Scope of project to be reviewed.
The Canterbury Beaney: Combined Art Museum and Library	South East	12,364,596	7,015,000	90	Museum opened September 2012. The centre was shortlisted for the Art Fund Prize in 2013. The remaining activity programme is nearing completion.
Chiswick House and Gardens Regeneration Project: Phase 1	London	11,887,500	8,100,000	98	The project is complete with the exception of some minor outstanding costs relating to the employment of gardening, marketing, and volunteer-coordinating staff.
Creating the Museum of Bristol: The People's Story	South West	27,390,843	11,668,400	10	Project complete. M Shed, which tells the industrial history of the city of Bristol, has received over 1.3 million visitors in its first two years of opening.
Ditherington Flax Mill Maltings, Shrewsbury	West Midlands	25,679,400	12,823,300	0	Grant awarded July 2013 towards the first phase of regeneration for this site, restoring seven listed buildings, including the world's first iron-framed building. Tender prices for the work packages are currently being reviewed.
Dreamland, Margate	South East	11,102,520	5,800,000	2	Grant increase of £2,800,000 awarded in March 2014 to cover cost increases in part due to delays in concluding the Compulsory Purchase Order. The project will restore a proportion of the site and re-open this historic amusement park with a programme of activities and events.

Project title	Region or country	Total project cost (£)	Grant amount (£)	% of grant paid to date	Latest report
Restoring our Fenland Heritage – the purchase and restoration of the Holmewood Estate	Eastern	13,350,785	9,101,700	90	£1,897,700 grant increase awarded March 2013 to secure a further 182 hectares of land (envisaged in the original proposals). These are now part of the wider Great Fen project, one of largest habitat-restoration projects in Europe.
Hastings Pier	South East	14,248,352	11,410,000	10	Grant awarded November 2012. Compulsory Purchase Order completed in 2013. Work commenced on site January 2014 with laying of new deck planks at the landward end of pier. The community share issuance allowed 1,300 shares to be sold and raised the target level of funding towards the project.
HMS <i>Caroline</i> , Belfast	Northern Ireland	15,259,880	12,207,800	0	A first-round pass awarded April 2013, including a development grant of £845,600. Development phase underway with project-management structures established and transfer of ownership of the ship to the National Museum of the Royal Navy completed. A second-round decision is anticipated in autumn 2014. The project is scheduled to be delivered in time for the First World War commemorations of the Battle of Jutland in May 2016.
Hull History Centre	Yorkshire and The Humber	10,697,161	7,506,000	85	Grant awarded in July 2007 and the Hull History Centre opened to the public in June 2010. The HLF-funded activity programme is being delivered. A final claim is expected.
Inspired by Knole	South East	24,181,947	7,750,000	0	Awarded July 2013 to secure the future of the Grade I listed Knole House. Permission to start agreed.
Lincoln Castle Revealed	East Midlands	19,982,405	12,277,460	0	Project to re-organize museum displays in the castle and re-interpret the castle grounds on course. Aiming for opening as part of Magna Carta celebrations in 2015.
Lion Salt Works	North West	6,962,250	5,290,000	53	Project awarded grant of £4,958,000 in March 2008 to restore open-pan saltworks in Cheshire, with grant increase of £332,000 awarded in July 2012. Work began on site in 2012 but the condition of the site was found to have a greater level of deterioration than expected. Work is continuing and HLF has appointed a mentor to help focus on fundraising.
Information Age, Making Modern Communications, Science Museum	London	14,300,000	6,000,000	39	Gallery construction complete and installation of interpretation commencing. Learning programmes preparation on-going. Conservation of objects almost complete. Launch planned for autumn 2014.
Edouard Manet's <i>Portrait of Mademoiselle Claus</i>	South East	7,929,300	5,999,300	98	Grant awarded April 2012. Painting acquired August 2012. Outreach work completed – the final three venues visited this year were Barber Institute of Fine Arts, Birmingham; Manchester Art Gallery; and the National Museum Wales, Cardiff.

Progress on Projects Over £5million

Project title	Region or country	Total project cost (£)	Grant amount (£)	% of grant paid to date	Latest report
Mary Rose Museum Project	South East	32,452,000	25,205,000	88	Museum opened in June 2013 and has since received over 400,000 visitors. The new building has won Building Magazine's Project of the Year 2014 award. Conservation of artefacts continues.
Museum of Liverpool	North West	19,373,633	11,400,000	89	Museum opened July 2011. Final drawdown pending following resolution of non-HLF-project-related issues.
The Piece Hall – Halifax Heritage	Yorkshire and The Humber	10,770,888	7,000,000	2	Grant awarded July 2012. Preparation work nearly complete. Work on site scheduled to start in summer 2014.
Regeneration: First World War Centenary Project, Imperial War Museum	London	25,252,876	6,500,000	41	£2million grant increase awarded in November 2013. All principle exhibits in place. Formal opening scheduled for July 2014.
Renaissance of the Cotswold Canals	South West	27,641,225	12,716,300	89	Restoration of 8.7km of canal between Ocean and Bowbridge and repair of towpath as far as Brimscombe Port ongoing.
Revealing, celebrating and exploring the heritage of the Royal Academy of Arts	London	30,156,969	12,300,000	0	Grant awarded September 2013 for repair of 6 Burlington Gardens and linking to Burlington House with improved visitor amenities. Essential preparatory works underway.
Royal Albert Memorial Museum and Art Gallery Development	South West	19,126,003	9,652,000	100	Complete. Final payment made August 2013. Museum opened in December 2011.
Creu Hanes – Making History at St Fagan's	Wales	24,477,415	11,550,000	0	Grant awarded July 2012. 5% of costs left to fundraise and enabling works complete. Displays decanted to external stores and all necessary consents received. Main contract about to start.
Silverstone Heritage Live	East Midlands	19,121,014	9,110,500	0	A first-round pass awarded April 2013 with a development grant of £446,000. The land ownership and governance have been re-arranged so that a charitable organisation is established to deliver this project which will interpret the famous and historic Silverstone race track.
Stonehenge Environmental Improvements Project	South West	21,619,387	10,000,000	82	Visitor centre opened December 2013 Landscaping works around the old visitor hub and car park continuing.
The Temperate House Project	London	32,330,148	14,690,600	5	Grant awarded March 2013. All preparatory work completed. Tenders for main construction under review.
V&A Dundee	Scotland	54,569,163	9,399,500	1	Grant awarded January 2014. Funding from Scottish Enterprise and Creative Scotland secured. Capital project works are out to tender and recruitment of project staff underway.
Winchester Cathedral, Kings and Scribes	South East	13,973,581	10,477,300	1	Awarded July 2013. Construction of the Learning Centre starting shortly. Cathedral works to presbytery roof and clerestory windows scheduled to start later in 2014. Volunteer recruitment successful and preparatory works completed.
Windermere Steamboat Museum	North West	12,675,245	9,370,700	0	Awarded July 2013. First payment request received. Work started on site.

Project title	Region or country	Total project cost (£)	Grant amount (£)	% of grant paid to date	Latest report
The 21st Century Gallery in the Park: Extending Access to the Whitworth's Collections	North West	12,545,059	8,500,000	57	Gallery closed in September 2013 for construction. Due to reopen October 2014.
The British Museum World Conservation and Exhibitions Centre	London	37,784,645	10,000,000	15	Capital project scheduled to complete summer 2014. First major exhibition held in the new part of the British Museum - the BP sponsored 'Vikings: life and legend' - has sold 128,000 tickets. Training of museum staff and volunteers from other parts of the country trialled successfully.
York Minster Revealed	Yorkshire and The Humber	18,295,155	9,797,000	62	The stonework and glazing are ongoing. Works to the undercroft and piazza are now complete, including the associated interpretation. Undercroft officially opened May 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 2013–14

2.1 Permanent staff in post as at 14 April 2014

Ethnic origin	Total
African	5
Asian Bangladeshi	1
Asian Indian	3
Asian Pakistani	2
Black African and White	1
Caribbean	6
Oriental Chinese	1
Other Asian	1
Other Mixed Ethnic	1
Other	3
White	252
Grand total	276

2.2 Applications for employment in 2013–14

Monitoring information of job applicants, including internal applicants, who applied through our jobs website online for 39 successfully recruited jobs. (Some data is missing due to a technical system error involving five roles.)

Ethnic origin	Returned applications	Shortlisted for interview	Successful at interview
African	93	9	1
Arab	2	0	0
Bangladeshi	27	1	0
British/English/ Northern Irish/ Scottish/Welsh	1,650	219	35
Caribbean	43	4	0
Chinese	13	0	0
Indian	78	6	0
Irish	47	6	0
Not stated	343	25	3
Other	26	1	0
Other Asian	22	0	0
Other Black	2	0	0
Other Mixed	28	1	0
Other White	77	9	0
Pakistani	36	0	0
White and Asian	17	2	0
White and Black African	13	1	0
White and Black Caribbean	15	1	0
Grand total	2,532	285	39

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 2013 there were 30 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 2013–14 six white employees and one from another racial group were permanently promoted internally. Six white employees were temporarily promoted internally.

2.6 Number of employees involved in grievance procedures during 2013–14

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

2.7 Number of employees subject to disciplinary procedures during 2013–14

No employees were subject to formal disciplinary proceedings during the reporting year.

2.8 Number of employees leaving the Fund's permanent employment in 2013–14

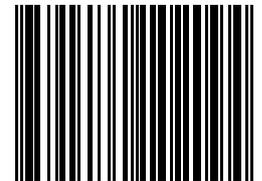
White employees	36
All other racial groups	4

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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