

NATIONAL
HERITAGE
MEMORIAL
FUND



Annual Report and Accounts
for the year ended 31 March 2017



National Heritage Memorial Fund

Annual Report and Accounts for the year ended 31 March 2017

Report presented to Parliament pursuant to Section 7(1) of the National Heritage Act 1980, and accounts presented to Parliament pursuant to Section 7(3) of the National Heritage Act 1980

Ordered by the House of Commons to be printed on 12 July 2017
Laid before the Scottish Parliament by the Scottish Minister on 12 July 2017
Laid before the Northern Ireland Assembly on 14 July 2017
Laid before the National Assembly for Wales on 18 September 2017

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This publication is available at <https://www.gov.uk/government/publications>

Print ISBN 9781474142373

Web ISBN 9781474142380

ID 22031704 07/17

Printed on paper containing 75% recycled fibre content minimum.

Printed in the UK by the Williams Lea Group on behalf of the Controller of Her Majesty's Stationery Office

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In 2016–17 the National Heritage Memorial Fund has again demonstrated the remarkable scope of its important role safeguarding the nation’s heritage. The treasures that we have been able to help bring into public ownership this year are wonderfully diverse in terms of both what they are and where they can be seen and appreciated. They date from the 11th to the 20th centuries and include an extravagant country house in South Yorkshire, a groundbreaking fairground ride in Devon and a collection of Anglo-Saxon coins in Buckinghamshire.

This year saw the completion of a long-standing, high-profile case for NHMF with the award of over £3.5million to the Wentworth Woodhouse Preservation Trust to acquire Wentworth Woodhouse. This fine property in South Yorkshire, an outstanding example of a Grade I listed Jacobean country house, features an extraordinary frontage and exceptional interiors. It is a source of great joy to us that this huge building with its powerful story will now be preserved and, I am sure, widely visited and appreciated.

NHMF has this year played a major part in saving a number of fine decorative items. These include a pair of Roman hardstone cabinets, examples of the highest quality furniture making of 17th century Italy, and a pair of metal stands (andirons) used to support wood in fireplaces that demonstrate the quality of decorative art and furnishing during the reign of Charles II.

Two very different items that NHMF has helped to acquire have fascinating and significant histories – of war and of faith. TE Lawrence’s dagger and robes, now on display at the National Army Museum, remind us of his major role in the victory of the British over the Ottoman empire during the First World War while the secret chapel within Gunter Mansion in Abergavenny, which lay hidden for two hundred years, has a very different story to tell. The chapel, now in the care of the Welsh Georgian Trust, is said to have played a part in the arrest and execution of two Jesuit priests for saying mass.

“NHMF has again demonstrated the remarkable scope of its important role safeguarding the nation’s heritage.”

NHMF has also continued to administer the government's Listed Places of Worship: Roof Repair Fund. The fund has helped ensure that some 900 places of worship across the UK can continue to play their vital role in community life. We are delighted that the majority of the 500 successful applicants from the first round of funding have now completed their projects. Additional funding enabled a further 400 grants to be awarded in June 2016. Our team has been actively engaged in supporting those places of worship with the important work of protecting and repairing the fabric of their historic buildings.

During the year we made improvements to our application process; now fully online via the NHMF website it offers an easier process for potential applicants. This year we have also welcomed a new Chief Executive, Ros Kerslake. Ros has brought a wealth of experience from her previous role leading the Prince's Regeneration Trust. I very much look forward to working with her in developing the work of the Fund.



Sir Peter Luff
Chair of NHMF

“I very much look forward to working with Ros in developing the work of the Fund.”



TE Lawrence's dagger and robes

National Army Museum

£78,400 and £35,000

One of Britain's most celebrated soldiers, TE Lawrence is a true British icon.

Lawrence played a key role in the Middle East during the First World War and following the collapse of the Ottoman empire. After the war he achieved international fame, which was later rekindled after the 1962 film *Lawrence of Arabia* depicted his wartime exploits. A key factor of his military success was thought to have been his abandonment of British dress for Arab clothing, which makes this acquisition of his dagger, robes and headdress so significant.

His dagger, known as a jambiya, was gifted to Lawrence after victory over the Ottoman forces at Aqaba in modern-day Jordan in 1917. An NHMF grant to the National Army Museum of £78,400



enabled them to purchase the dagger and stop it from being exported outside of the UK. When later that year an opportunity arose to acquire Lawrence's robes and headdress at auction NHMF again assisted its purchase with a grant of £35,000. The robes had been saved from the scissors of the mother of one of his army colleagues after Lawrence had told her to cut them up and make dresses with them. The headdress, known as a kaffiyah, was given to the artist Cosmo Clark by Lawrence after he sat for a portrait in 1922.

Lawrence's military achievements can still be felt the world over today. The part played by this clothing in his success has led to the enduring image being that of Lawrence in full Arab dress, which makes these items acquired for the nation and now available to view at the National Army Museum, as evocative as they are meaningful.



Isaac Oliver's *Lord Herbert of Cherbury* National Trust

£1,500,000

Despite measuring just 230mm by 189mm, Isaac Oliver's *Lord Herbert of Cherbury* has long been the star item at its historic home of Powis Castle.

The magnificent cabinet miniature shows Herbert as the fashionable, melancholic young lover, his head resting on his hand as he lies stretched out along the banks of a stream running through a shady forest. His shield bears the inscription 'magia sympathiae' (meaning 'sympathetic magic') and an image of a burning heart. Lord Herbert's own life reflected this image of the knightly romantic.

One of the most famous men of the day, Herbert was known as a poet, socialite, philosopher and statesman. His career included time as an MP,

a failed Huguenot expedition to Piedmont, which ended in his imprisonment, and a spell as ambassador to Paris. The portrait was painted between 1602 and 1617 by Isaac Oliver, a royal miniaturist and painter of James I's court.

The painting, watercolour on vellum and framed in a contemporary 17th century tortoiseshell and ebony frame, is a colourful and lyrical portrayal of Herbert. With its connotations of chivalry and romance the painting's pastoral artistry creates a charming vision of courtly life in the Jacobean age. The portrait will now remain in its home of Powis Castle, which he bought in 1587.

Having been offered for sale by a private owner the painting has been secured in perpetuity for Wales thanks to a number of organisations including NHMF. The National Trust will explore new ways of making the work accessible to the wider public including through commemorations of the 400th anniversary of Isaac Oliver's death this year.

Purchase of a William Burges vase

National Museums Scotland

£145,000

When English architect and designer William Burges was asked by the 3rd Marquess of Bute to redecorate Cardiff Castle he was encouraged to give full flight to his creativity and imagination.

With money no object Burges had artistic free reign to design the castle as a family home in the Gothic Revival style. For the building's summer smoking room he devised a sophisticated scheme with decorative items intended to harmonise with the room itself. This tulip vase, one of a set of four, was an integral part of that design.

The vases, all slightly different, were placed in each corner of the room and featured designs that matched the interior. This particular vase is painted in red, green and blue and features foliate and scalloped designs, parakeets and family coats of arms. The colours of the vase were mirrored within the room while its lovebirds were repeated across the decor including on the hood of the chimneypiece.

NHMF provided a grant last year to Amgueddfa Cymru – National Museum Wales to acquire the third of these four vases. Now the fourth and last of the set is also in public ownership it is hoped that they can be brought back together in the context of a future exhibition. This vase is now displayed in the National Museum of Scotland's Design for Living gallery, which explores art and design movements, technologies and ideas between 1851 and 1951.



Wentworth Woodhouse

The Wentworth Woodhouse Preservation Trust

£3,575,000

Below: Exterior view of the east front; interior view of the long gallery

Opposite page clockwise from top left: the whistlejacket room; a dining room in the main house; a view of the hall and stairs; the marble hall

Remarkable for its sheer magnitude and impressive interiors, Wentworth Woodhouse and its surrounding 83 acres of park is a truly stunning acquisition made possible thanks to NHMF funding.

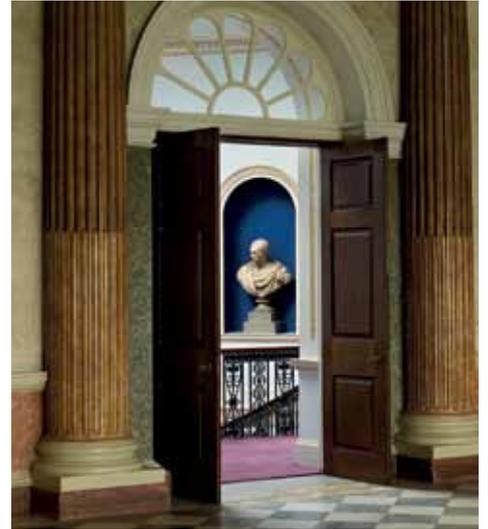
With its 180-metre-long east front said to be the longest single phase front of any English country house, Wentworth Woodhouse has grand scale. The same front is considered the finest surviving Palladian composition in England while the west front is notable for its flamboyant Baroque style. The mansion house and grandiose stable block are grade I listed. The interior craftsmanship of the



house is of the highest quality; it has more outstanding interiors than any other major 18th century country house. In particular the marble saloon is one of the most accomplished early 18th century interiors in England.

Although a house existed at this site as early as the 1630s the house as we know it today was mostly built during the 17th and 18th centuries. It was built by Thomas Watson-Wentworth who spent 13 years as an MP and later became the 1st Marquess of Rockingham. His son Charles, who was prime minister between 1765 and 1766, completed much of the interior of the house.

Having seen sharp decline following the Second World War, the estate narrowly avoided demolition before being converted to a residential teacher training college and subsequently sold to private owners. Recently the property has fallen into disrepair and all of its listed buildings have been included on Historic England's *Heritage at Risk Register*. The Wentworth Woodhouse Preservation Trust will now repair and restore the historic buildings, delivering public access to the ornate rooms of the mansion and parkland, while developing new uses for other parts of the property.



Acquisition of an alabaster sculpture

The British Museum

£90,000

A fine example of early English alabaster sculpture, this figure of the virgin and child is considered an extremely rare survival.

Due to the large-scale destruction of religious imagery that took place during the Reformation, few statues of this kind remain. When imagery of this kind was no longer allowed in Britain, many were loaded on to ships and exported for sale to the continent where English alabasters were popular. It is thought that this sculpture may have been one of them as it spent many years in a Belgian monastery.

The sculpture shows Mary with Christ as a child held in her right arm and flowers, a symbol of purity, in her left hand. The size, relatively large at 75cm high, and quality of the carving, particularly around the hands and drapery, suggests this was a commission for an important and wealthy client.

Created during the 14th century, the unknown British sculptor demonstrates great skill in suggesting both the divinity of Mary and her role as loving mother. Her face and the foot of Christ are worn as a result of having been touched and kissed by the faithful. A large portion of the delicate, original coloured paintwork is still present.

With the help of NHMF funding the British Museum has acquired the sculpture, allowing this remarkable piece to be on general public display for the first time since the 16th century by including it in the Sir Paul and Lady Ruddock Gallery of Medieval Europe.



Nonsuch Palace by Hoefnagel

Victoria and Albert Museum

£500,000

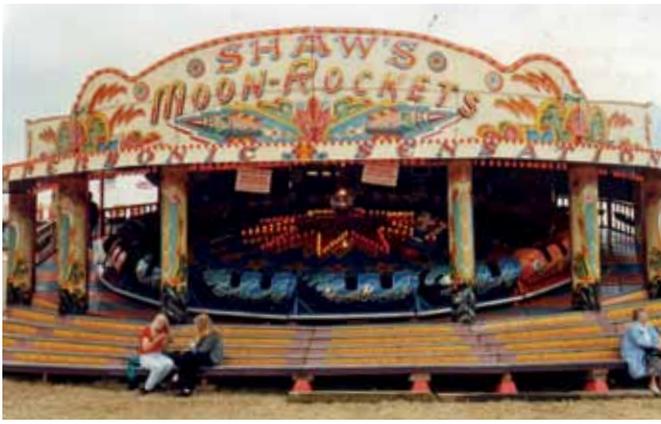
Little trace of Nonsuch Palace remains. Considered the most detailed surviving record of it, Hoefnagel's watercolour captures a remarkable building with an absorbing history.

The palace was thought to have been Henry VIII's attempt to emulate his great rival Francis I's Chateau de Chambord, recognised as one of the architectural wonders of Europe. A fairytale castle bristling with towers and spires, Nonsuch melded French and Italianate influences to exuberant result. A tour-de-force of Renaissance design, this key lost building of the period featured elaborate classical stucco-work decorations of emperors, deities, arts and virtues – themselves considered to be key artworks.

To make way for the palace the village of Cuddington in Surrey was moved and its medieval parish church flattened. Unfinished at Henry's death Nonsuch was sold by Mary I to Lord Arundel who completed the building in 1557. It remained a royal palace until 1670 when Charles II gifted it to his mistress, Barbara Villiers, who dismantled it and sold the materials to pay off her gambling debts. By 1690 the palace had virtually disappeared; today only archaeological fragments remain.

Created by Joris Hoefnagel in 1568, the painting is of outstanding interest as an early example of watercolour landscape and is among the earliest in English art. It's exceptionally detailed and naturalistic and gives a true record of the palace's architecture. It is one of only six surviving views of Nonsuch and will now become a key part of the Victoria and Albert Museum's British Renaissance displays.





Shaw's Moon-Rocket

The Fairground Heritage Trust

£90,000

Unrivalled as the only ride of its kind still fully intact and functioning, Shaw's Moon-Rocket is a dazzling throwback to a time when speed, thrills and excitement were the height of fashion.

With its garish neon lighting and colourful paintwork the Moon-Rocket looks sensational, immediately transporting you to a bygone era. Its rocket-shaped cars reflect the 1930s fascination for space travel while its head-spinning pace brings to mind the day's interest for the speed records of cars and planes. These factors, alongside the desire for escapism brought on by the economic problems that followed the Great Depression, combined to make the Moon-Rocket a hugely popular attraction.

A forerunner to the white knuckle rides seen at theme parks today, the ride made at least the illusion of speed and travel available to those who would have had no opportunity of actually experiencing either. The cars added in the 1950s spin in the opposite direction to the centre of the ride giving the impression of travelling at a dizzying 24rpm.

Purchased by showman John Shaw in 1938, the Moon-Rocket as a ride type had almost vanished from fairgrounds by the 1960s with most scrapped by the 1970s. The Moon-Rocket continued travelling until 1984 before eventually being sold to engineer Howard Maden. What followed was one of the most comprehensive restoration jobs ever undertaken.

The Fairground Heritage Trust, having acquired it with the help of NHMF funding, has the Moon-Rocket on display and available for the public to ride once again at the Fairground Heritage Centre in Devon.







Above: A selection of coins from the Lenborough Hoard

Far left: A coin from the reign of Cnut

Left: A coin from the reign of Ethelred II



Saving the Lenborough Hoard Buckinghamshire County Museum Trust **£1,025,000**

Discovered in a field near Lenborough by a metal detectorist in 2014 this extraordinary hoard of Anglo-Saxon coins provides a fascinating link to a time little understood in the present day.

The find is the largest hoard of Anglo-Saxon coins to be unearthed in Britain since the 19th century. It shows great potential to increase understanding of the circulation of money during the 11th century. The rarity of these coins is down to the Saxon treasury's practice of recalling all existing coinage roughly every six years, melting it down and reminting in a different style as a form of taxation and fraud prevention.

The hoard comprises 5,248 silver pennies from the reigns of Ethelred II and Cnut and is thought to have been buried around 1035AD. The coins of Ethelred might have been savings while the coins of Cnut differ in that their mint condition suggests they were unused.

We know relatively little about the period so a find of this calibre helps to build a fuller picture of one of our nation's formative periods. The coins of Ethelred indicate trading links with Ireland during his reign. Those of Cnut, the King of England and ruler of an Anglo-Scandinavian empire aged 20, underline that cultural influence went both ways with Britain's Viking ruler introducing currency to Scandinavia.

NHMF's grant to the trust has ensured that these coins will be on public display close to where they were buried for almost a thousand years.

Castle Howard cabinets

The Fitzwilliam Museum

£700,000

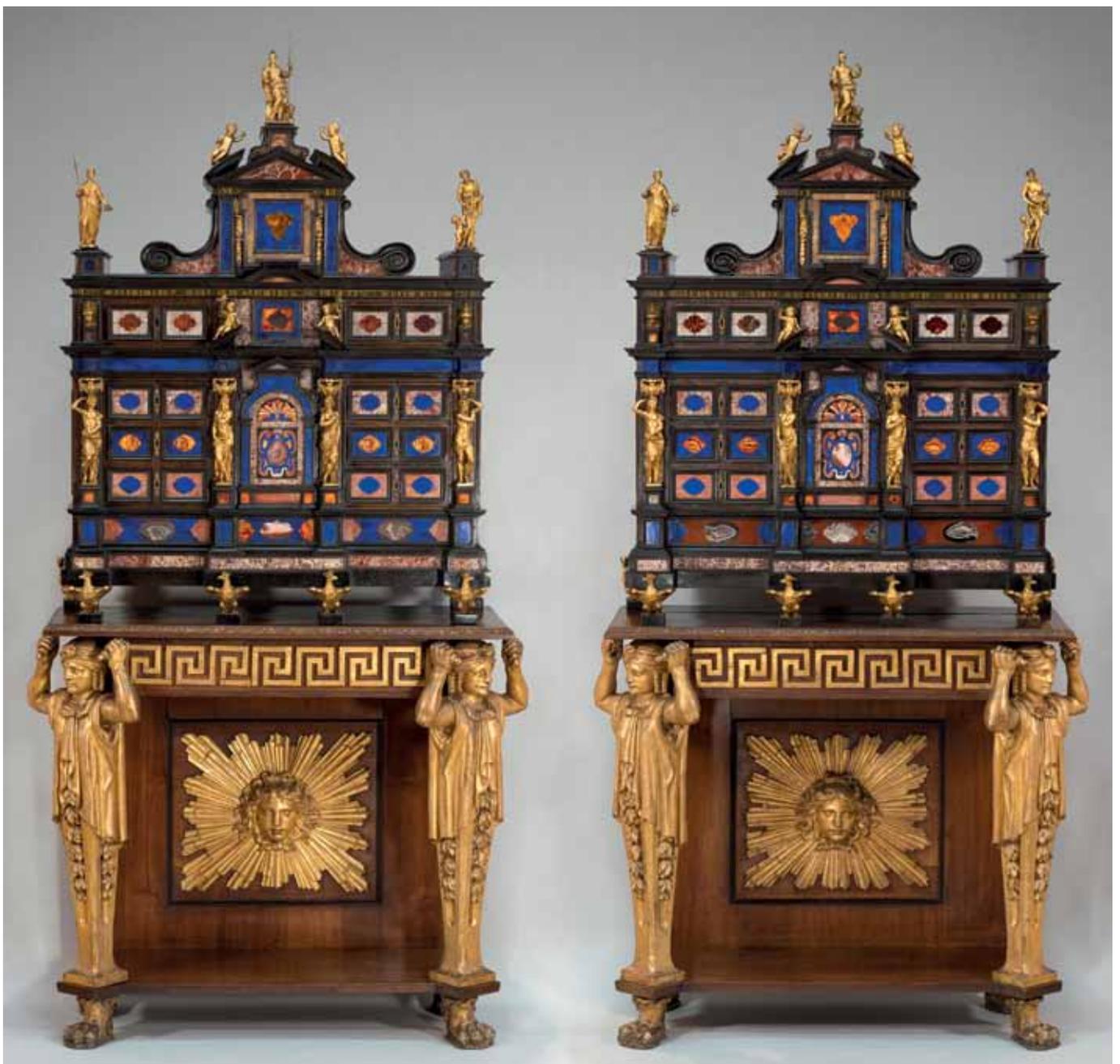
These unique and magnificent ebony and rosewood cabinets are mounted with gilt-bronze elements and have been further embellished with *pietre dure* decoration, created by cutting and fitting together polished pieces of semi-precious stone. The decoration includes stones such as electric blue lapis lazuli, red and yellow jaspers and agates. They represent the very best in early 17th century Roman cabinet making.

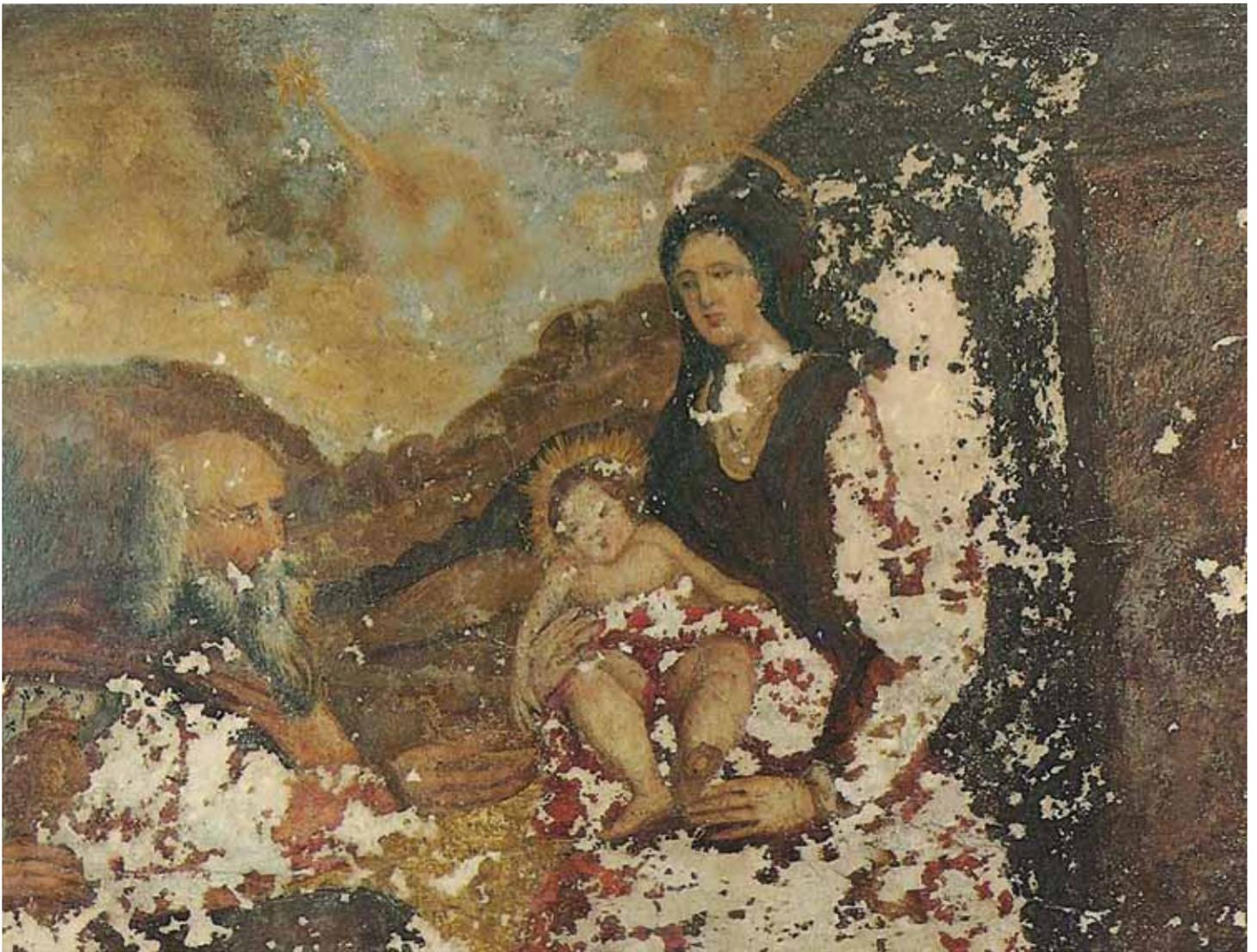
The brilliantly coloured and technically superb cabinets, which include several secret drawers in addition to the lockable ones, were made in Rome in the 1620s. Although their original owner is undocumented, latest research suggests that they may have been a wealthy and discerning member of the d'Este family,

given the inclusion of feet in the shape of crowned eagles, which were the symbol of the family. The cabinets were purchased by Henry Howard, the 4th Earl of Carlisle – seen as a man of the most refined taste by his contemporaries – in the late 1730s for display at his home, Castle Howard, in Yorkshire. He would have acquired them while on a grand tour, an educational-cum-cultural tour of Italy and other European centres undertaken by many wealthy young men during which quantities of art were usually acquired.

The equally elaborate stands of giltwood were custom-made in England and include several classical elements including Greek key friezes, a sunburst mask of Apollo, herms and lion's paw feet.

At risk of being granted an export licence and leaving the UK, NHMF helped the Fitzwilliam Museum, the flagship museum of Cambridge University, to acquire these for the nation during its bicentenary.





Clockwise from above: altarpiece fresco representing the nativity; graffiti on the walls of the chapel at Gunter Mansion; internal windows in stairwell; an internal window in vaulted room; Gunter Mansion as it is today; the house as it was in the early 20th century



Gunter Mansion

The Welsh Georgian Trust

£125,000

With its contentious Catholic chapel – hidden for over 200 years – Gunter Mansion occupies an unusual position in history for its role in recusancy, the practice of refusing to conform to the Anglican doctrine.

The grade II listed building, situated in Abergavenny, was originally a late 16th century townhouse. In the mid-late 17th century, as religious tensions were running high, the house was the home of Thomas Gunter, a recusant and promoter of Catholicism. The discovery by parliament that the house was a focus for Catholic worship directly led to the 1679 arrest and execution of two Jesuit priests alleged to have said mass in the mansion.

This history is expressed in the very fabric of the building. When discovered during renovations in the 20th century the chapel was found with religious graffiti on the ceiling including a monogram, an image of a man in black robes, and a red heart surrounded by gold rays beneath a cross. Also discovered was an altarpiece fresco representing the nativity, which was removed to a local museum; the trust is currently exploring whether it may be possible for it to be returned to the chapel once the renovation is complete.

At risk of being lost to the public due to its deteriorating condition, Gunter Mansion has now been saved by the Welsh Georgian Trust supported by NHMF. The trust will ensure public access to the historic chapel, portraying its role in the religious turmoil of the mid-17th century.



Saving the steamship *Freshspring* The Steamship *Freshspring* Society

£155,000

With her many connections to the Royal Navy's involvement in post-war military issues such as the Suez crisis and the cold war, *Freshspring* provides a rare glimpse into an earlier era.

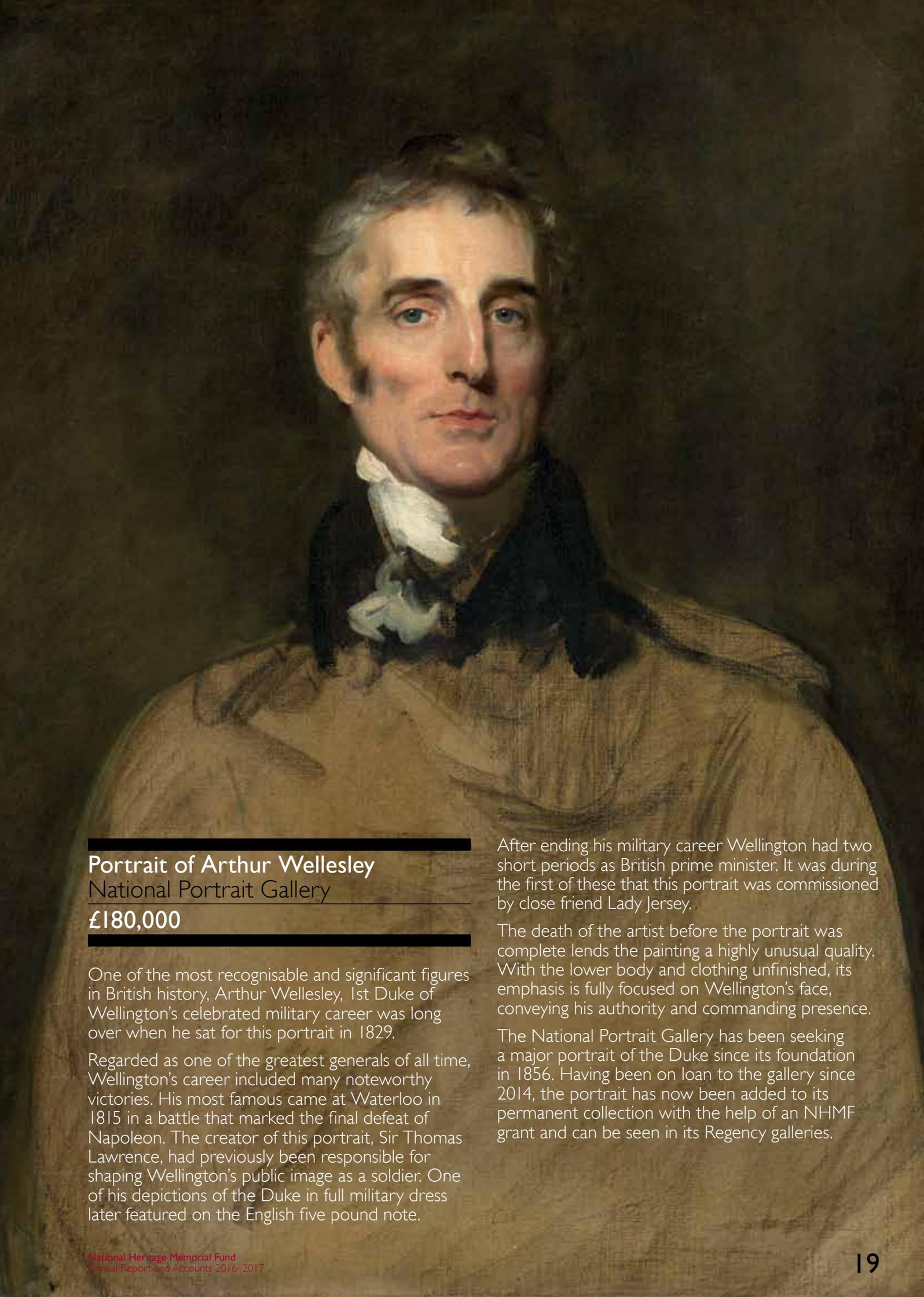
The ship is the sole surviving example of 14 Fresh Class vessels, tankers that supplied water to naval vessels around the world. Built in the 1940s and sold into private ownership in 1979, *Freshspring* served in Malta before returning to the UK to operate on the River Clyde as a cargo steamer. Now saved from being scrapped, the vessel is destined to become a training and educational resource centre for schools and the public.

The business of delivering water and other supplies to naval ships across the world was an extensive and complex one and *Freshspring* provides a focus to help understand it. The ship is also of particular note due to her appearance, which looks and feels nothing like a modern ship. The experience of visitors viewing and boarding this ship will immerse them in a technical, economic and social era now lost to the past.

The grant to *Freshspring* from NHMF allowed for emergency repairs to be carried out so she could be safely towed from an unsuitable berth on the River Severn to a new home at the port of Bideford. Now secure at Bideford, an army of volunteers are working to restore her to her former glory and make sure that she provides an informative and exciting experience for future visitors.

Clockwise from top left: Archive image of *Freshspring* at sea; Bow view of *Freshspring* while on blocks at Sharpness dry dock; *Freshspring* at sea, heading to Sharpness dry dock





Portrait of Arthur Wellesley
National Portrait Gallery

£180,000

One of the most recognisable and significant figures in British history, Arthur Wellesley, 1st Duke of Wellington's celebrated military career was long over when he sat for this portrait in 1829.

Regarded as one of the greatest generals of all time, Wellington's career included many noteworthy victories. His most famous came at Waterloo in 1815 in a battle that marked the final defeat of Napoleon. The creator of this portrait, Sir Thomas Lawrence, had previously been responsible for shaping Wellington's public image as a soldier. One of his depictions of the Duke in full military dress later featured on the English five pound note.

After ending his military career Wellington had two short periods as British prime minister. It was during the first of these that this portrait was commissioned by close friend Lady Jersey.

The death of the artist before the portrait was complete lends the painting a highly unusual quality. With the lower body and clothing unfinished, its emphasis is fully focused on Wellington's face, conveying his authority and commanding presence.

The National Portrait Gallery has been seeking a major portrait of the Duke since its foundation in 1856. Having been on loan to the gallery since 2014, the portrait has now been added to its permanent collection with the help of an NHMF grant and can be seen in its Regency galleries.

Charles II silver andirons

Amgueddfa Cymru –
National Museum Wales

£341,000

These silver andirons are exceptional examples of a distinctive style of fireplace furniture used as a fashion statement and seen as a sign of wealth during the reign of Charles II in the late 17th century.

The andirons, used to support burning logs in wood fires, are ambitious in design and notable for their decoration featuring iconic women from classical history. Adorned with figures of Cleopatra and Lucretia, both important figures in Roman political life, these andirons are thought to represent female



virtues and to have conveyed the status of their aristocratic female owners.

The pieces were made in 1680–81 and later engraved with the arms of Admiral Edward Russell and his second wife, Lady Margaret Russell, to commemorate their marriage. Admiral Edward Russell's eventful career included over 50 years of naval service, time as a member of parliament and membership of the Immortal Seven, a group that encouraged Prince William of Orange to depose James II.

The andirons were placed under a temporary export bar in early 2016 allowing Amgueddfa Cymru – National Museum Wales, with the help of NHMF, to acquire them. The pieces, now on display in Cardiff, have since become a highlight of the museum's internationally renowned collection of silver.



Report of the trustees and accounting officer

Performance report

Overview

Our performance in 2016–17 – a statement from the chief executive

2016–17 was a year of significant challenge for us in our National Heritage Memorial Fund (NHMF or 'the Fund') grant distribution role. The fact that we successfully delivered the corporate priorities we set at the start of the year is a testimony to the professional integrity and commitment of the teams who work on the NHMF side of our business alongside the leadership of the Board of Trustees ('the Board') and Management Board.

In terms of memorial grant giving we saw the successful delivery of stage two of the Listed Places of Worship: Roof Repair Fund (LPOW) programme, building on the successful model we created in 2014–15. Having assessed 1,500 applications we made 453 awards totalling £23.7million, which made a significant contribution to an important part of the nation's heritage across the whole of the United Kingdom (UK). Of particular satisfaction has been the ability to help those places of worship that would not otherwise benefit from our National Lottery-funded grants.

We were delighted to agree with HM Treasury and our sponsor department, the Department for Culture, Media and Sport (DCMS), that we could have flexibility to transfer £1million from the 2016–17 budget to 2017–18's to safeguard those projects still in delivery over the spring and summer of this year.

Furthermore, the continuing work of the NHMF team on our standard grants has helped to save some remarkable items of heritage for the nation and provided widened public access to them.

The range of our grants in 2016–17 demonstrates the unique value that NHMF brings in supporting the nation's heritage. From Shaw's Moon-Rocket to the Lenborough Hoard to Wentworth Woodhouse it is an astonishing testimony to the diverse heritage of our country and the ability of NHMF to help save it.

Building on the Spending Review settlement announced in November 2015 we have used our annual grant-in-aid very effectively. With our endowment fund investments also performing well we have taken the opportunity to start to review our long-term investment strategy alongside the certainty of the Spending Review settlement to see what more we are able to fund in our vital role to help save and enhance the nation's heritage. We expect to finalise those decisions in early 2017–18.

This follows on from a procurement review of our investment management services that we undertook over the spring and summer of 2016. We advertised

the services in a full market tendering exercise. We received over 20 bids from well-established and reputable fund managers.

Following Official Journal of the European Union guidelines we carefully assessed and evaluated the bids. We invited several bidders to presentations with our Investment Panel and several trustees, and selected the asset management company Schroders and Co. Ltd ('Schroders') as the preferred bidders. Their re-appointment was subsequently confirmed by the Board.

In February DCMS announced our tailored review, which we have made a promising start to. We look forward to working with the department and our stakeholders in the forthcoming months on this important piece of work.

Finally, let me thank our NHMF staff. They work with great integrity and professionalism, are truly committed to the work of the Fund and provide an exceptional service to the nation's communities and heritage.

Our purpose and activities

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

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

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

- i) any land, building or structure which in the opinion of the trustees is of outstanding scenic, historic, aesthetic, architectural, archaeological or scientific interest;
- ii) any object which in their opinion is of outstanding historic, artistic or scientific interest;

- iii) any collection or group of objects, being a collection or group which, taken as a whole, is in their opinion of outstanding historic, artistic or scientific interest.

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

Under the 1980 Act (as amended) and the 1997 Act, trustees are now also able to assist projects directed to increasing public understanding and enjoyment of the heritage and to interpreting and recording important aspects of the nation's history, natural history and landscape. Trustees use these extended powers primarily in connection with HLF. Trustees believe that NHMF has a vital role as the central bulwark in the nation's defence of items of outstanding importance that are at risk. Trustees will continue to use the resources provided by government, as well as resources generated by its endowment fund, to offer financial assistance as a fund of last resort towards the acquisition, preservation and maintenance of heritage that is threatened by destruction or loss.

Our key issues and risks

Our key issue has continued to be the delivery of LPOW. Over the past two years we have created a new programme from a standing start including an online application portal, online forms and payments, the assessment of many thousands of applications, the awarding of grants and follow-up work on delivery and monitoring.

This entailed significant risk, which we managed by providing specific, experienced leadership resources in both policy and operational delivery. This was supplemented by support in corporate areas to deliver the IT, staffing and payment arrangements. We have effectively managed the risk to this point with an internal audit review providing additional assurance on our risk management in this area.

Our other main risk related to our tailored review, the outcome of which is unknown at the time of signing these accounts. We are confident that the review team will recognise the importance of the Fund to the nation's heritage and the efficient way in which we distribute our grant-in-aid and National Lottery money.

Going concern basis

The accounts have been prepared on a going concern basis. This is because assets significantly exceeded liabilities at the date of the statement of financial position and because trustees have set a grant award budget for 2017–18 that is not

expected to alter that position. The Board has no reason to believe that the Fund will not continue to operate in the foreseeable future.

LPOW has had a significant impact on our statement of financial position. This is simply the result of timing differences in that almost all our awards were made in 2014–15 and 2016–17, while the associated grant payments will be made in the years 2015–16 to 2017–18. We don't receive the grant-in-aid from DCMS until those grant payments are made meaning that the liability is recognised before we receive the grant-in-aid to clear them. Over time the impact of LPOW will be neutral on our financial position.

Performance summary

The scale of our work means we have limited performance indicators but these are shown in the section of this report on key performance indicators on page 26. These have all been successfully met in 2016–17, as follows:

Indicator (standard awards)	Outcome in 2016–17
NHMF costs will be under 5% of grant-in-aid	Exceeded (2.8%)

Further indicators are shown in the section of this report on key performance indicators on page 26. Overall the performance of NHMF's grant giving and policy work has been very high in 2016–17.

Performance analysis

LPOW was announced by the then chancellor of the exchequer ('the chancellor') in the 2014 Autumn Statement. NHMF was asked by DCMS to run the programme aimed at listed places of worship, regardless of faith or denomination, throughout the UK. We received over 1,900 applications with a grant request of £105million by January 2015 and we made awards of £26.4million to over 500 places of worship in March 2015. A further £2million of grant increases was awarded in 2015–16. The majority of projects have been successfully completed during the course of 2016–17.

In response to the high demand the chancellor allocated a further £25million of funding for a second round of the programme to be committed during 2016–17. This round was launched in late 2015 with an application deadline of February 2016. We received over 1,500 applications requesting £88million. Awards totalling £22.9million were made to over 400 applicants in June 2016. Around £800,000 was also awarded in grant increases during the year. With the support of the LPOW team most of these projects are now underway with some already completed.

We have agreed with HM Treasury and DCMS that £1million of the £25million is to be carried forward to 2017–18 to make further awards. These will

Report of the trustees and accounting officer

normally take the form of grant increases for those projects that uncover additional problems once repair work is underway.

We have also commissioned an external evaluation of LPOW. Applicants to both rounds of funding, other stakeholders and LPOW staff have contributed to this exercise, which has explored whether the programme achieved its intended outcomes; how applicants found the application process; their experiences of running repair projects; and how effective those projects have been at tackling urgent repairs identified in these historic buildings. The evaluation report will be finalised by 31 March 2017 and we will be using lessons learned from it to help inform the wider work of NHMF.

Excluding LPOW, NHMF received 15 applications of which 14 were funded and one was unsuccessful at auction. The total amount awarded by trustees for the 14 cases (including the unsuccessful award) was £8,826,900. Similar to previous years NHMF has supported a wide range of important and significant heritage to be acquired. The Wedgwood vase was not secured at auction and the £287,500 committed for that has reverted to the budget.

Four of the applications were for items that were temporarily stopped from export out of the UK following advice from the Reviewing Committee for the Export of Works of Art. Amgueddfa Cymru – National Museum Wales secured a set of Charles II silver andirons, used for supporting burning logs in wood fires, which are now on display in Cardiff as a highlight of the museum's internationally renowned collection of silver. Joris Hoefnagel's *Nonsuch Palace*, acquired by the Victoria and Albert Museum ('the V&A'), is an early example of watercolour landscape and is among the earliest in English art. It is one of only six surviving views of Henry VIII's Nonsuch Palace, which was demolished in the 1690s. The Fitzwilliam Museum purchased a pair of cabinets from Castle Howard to display as part of its bicentennial exhibition. The cabinets are believed to have been commissioned in 1625 by the Borghese family and bought by Henry Howard, the 4th Earl of Carlisle, in the late 1730s for display at his home of Castle Howard in Yorkshire.

The final export-stopped object, TE Lawrence's dagger, was acquired by the newly reopened National Army Museum. His dagger, known as a jambiya, was gifted to Lawrence after victory over the Ottoman forces at Aqaba in modern-day Jordan in 1917. Lawrence played a key role in the Middle East during the First World War and following the collapse of the Ottoman empire. A key factor to his military success was thought to have been his abandonment of British dress for Arab clothing. This made the museum's later acquisition of his robes and headdress so significant and reflects NHMF's

role as a fund established as a memorial to those who have given their lives for the UK. The other acquisition with memorial character was *SS Freshspring*, the sole surviving example of 14 Fresh Class vessels, which were tankers that supplied water to naval vessels around the world. The boat has been towed from its berth on the River Severn to a new berth at the port of Bideford where it is being converted for new use as a training and educational resource centre for schools and the public.

We supported one acquisition that was declared treasure under the 1996 Treasure Act.

Buckinghamshire County Museum Trust acquired an Anglo-Saxon hoard discovered in a field near Lenborough by a metal detectorist in 2014. The find is the largest hoard of Anglo-Saxon coins to be unearthed in Britain since the 19th century. The museum ran a successful public fundraising campaign as well as applying to NHMF in order to keep the hoard in the locality where it will be displayed in the county museum.

We have supported a number of artworks over the year. The V&A acquired Isaac Oliver's miniature, *Lord Herbert of Cherbury*. One of the most famous men of the day, Herbert was known as a poet, socialite, philosopher and statesman; the painting will remain at its historic home of Powis Castle. A portrait of Arthur Wellesley 1st Duke of Wellington by Sir Thomas Lawrence was acquired by the National Portrait Gallery. Lawrence died before the portrait was complete so the emphasis is fully on Wellington's face. NHMF helped secure the last of the series of four vases designed by the English architect and designer William Burges for Cardiff Castle. Commissioned by the 3rd Marquess of Bute, the vase is displayed in the National Museum of Scotland's Design for Living gallery. The British Museum acquired an early example of English alabaster sculpture, a figure of the virgin and child. Due to the large-scale destruction of religious imagery that took place during the Reformation, few statues of this kind remain. This beautiful sculpture is now on display in the museum's gallery of medieval Europe.

One of the more unusual NHMF acquisitions was Shaw's Moon-Rocket, the only fairground ride of its kind still fully intact and functioning. Purchased by showman John Shaw in 1938, the Moon-Rocket as a ride type had almost vanished from fairgrounds by the 1960s with most scrapped by the 1970s. The Fairground Heritage Trust has since made the Moon-Rocket available to ride on at its Fairground Heritage Centre in Devon.

Atypically we made two awards for listed buildings this year. The Welsh Georgian Trust acquired Gunter Mansion, a grade II listed building situated in Abergavenny. The house was the home of Thomas Gunter, a recusant and promoter of Catholicism.

It was originally a late 16th century townhouse and was at risk of being lost to the public due to its deteriorating condition. Our largest award this year was made to The Wentworth Woodhouse Preservation Trust for the acquisition of Wentworth Woodhouse. This has been a long-running case for NHMF but now the magnificent house, with the longest single phase front of any English country house, will come into public use. The house will need repair works throughout but will open to the public for events, and will be available as residential apartments and a business space.

Total standard grants awarded came to £8.8million. In addition another £23.7million of LPOW awards were made.

A full list of grants awarded is as follows:

Acquisition	Applicant	Awarded
Acquisition of an alabaster sculpture	The British Museum	£90,000
Castle Howard cabinets	The Fitzwilliam Museum	£700,000
Charles II silver andirons	Amgueddfa Cymru – National Museum Wales	£341,000
Gunter Mansion	The Welsh Georgian Trust	£125,000
Isaac Oliver's <i>Lord Herbert of Cherbury</i>	National Trust	£1,500,000
<i>Nonsuch Palace</i> by Hoefnagel	Victoria and Albert Museum	£500,000
Portrait of Arthur Wellesley	National Portrait Gallery	£180,000
Purchase of a William Burges vase	National Museum Scotland	£145,000
Saving the Lenborough Hoard	Buckinghamshire County Museum Trust	£1,025,000
Saving the steamship <i>Freshspring</i>	The Steamship Freshspring Society	£155,000
Shaw's Moon-Rocket	The Fairground Heritage Trust	£90,000
TE Lawrence's dagger	National Army Museum	£78,400
TE Lawrence's robes	National Army Museum	£35,000
Wentworth Woodhouse	The Wentworth Woodhouse Preservation Trust	£3,575,000
Wedgwood vase (outbid at auction, grant not claimed)	The Potteries Museum and Art Gallery	£287,500
Total standard grants awarded		£8,826,900

We received grant-in-aid of £35.3million in the year. £5million was our standard annual grant and a further £30.3million was received towards our grant payments and administrative costs for running LPOW. We had unpaid LPOW grant awards from 2014–15 and 2015–16 totalling £12.9million – almost all of which has now been paid out – along with payments for a significant portion of the awards made this year. As a result of these new awards the reported operating deficit for 2016–17 was extremely large as it rose from £3.7million to £31.4million. It is anticipated that the operating deficit will be much lower in 2017–18 as we only expect to award around £1million to LPOW projects.

Despite the reported operating deficit we had over £38million of net assets at the year end, although £16million of this relates to the unrealised surplus in the value of the endowment fund. In addition

trustees have received an allocation letter from DCMS that makes it clear that NHMF will receive sufficient grant-in-aid in the next few years to cover its liabilities and planned grant budgets.

In addition to its impact on the normal level of awards LPOW continues to distort our administrative costs. This level of higher costs will fall significantly in 2017–18 now that the great majority of awards and payments have been made. Staff costs increased as 2016–17 involved the processing of the second tranche of LPOW awards – the first tranche was awarded in 2014–15. These costs will fall significantly in 2017–18 as the programme draws to an end. Administration costs fell; again mostly for reasons related to LPOW. Programme start-up costs were incurred in previous years and less was required

for the current year as anticipated in last year's annual report.

The return on the endowment in the year was a rise of 17.5%. The endowment fund investment policy remained one of capital accumulation, but the trustees' Investment Panel is revisiting the strategy following a re-tendering exercise for the role of investment managers in 2016–17. Consideration is being given to generating a steady income from the investments to increase the annual grant budget without impacting on the achievement of the target value. During the year we drew down £1.9million in cash from the sale of investments in the endowment fund. Obviously with the level of grant awards being far in excess of our standard grant-in-aid it was inevitable that we would have to liquidate a small part of the endowment. As the value of the endowment was

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well in excess of its target value it was an easy choice to opt for the sale. As the endowment fund value is well in excess of its book costs, the raising of £1.9million only required the sale of around £1.3million book cost leading to a profit of over £600,000. Stock markets have performed well in 2016–17 leading to a substantial improvement in the value of the endowment fund despite the drawing down of that £1.9million; its value is now £43.8million against a book value of £27.9million – an unrealised profit of £16million.

Cash figures were barely changed based on the year-end figures, but the balances moved significantly during the year as we paid out over £36million in grants. In both January and March 2017 grant payments were over £6.3million meaning that the closing balance of £3.4million was not as large as it may have initially appeared.

Outstanding grant commitments reduced significantly in 2015–16 from £13.7million to £8.8million despite the level of awards made being much higher than last year. This was mostly due to us doubling the level of LPOW grant payments as we finished paying off the great majority of the first tranche of awards (March 2015) and a significant portion of the second tranche (June 2016). We initially intended to award around £1million more LPOW grants in 2016–17 than we ended up awarding. However, from our experience of the first tranche of awards, we thought grant increases would be needed and that they would only emerge after the original award was given; hence, we felt it prudent to ask DCMS in the winter of 2016 to allow us to carry over £1million to 2017–18, which left £24million to spend in 2016–17.

Key performance indicators

Trustees recognise that NHMF should strive for high performance in its activities. To this end there are three performance indicators in our current funding agreement with DCMS. These indicators cover the most significant aspects of customer service – the speed of processing a grant application; the speed of processing a grant payment request;

and the speed of publicising decisions on our website. The fund is achieving the majority of its targets thereby demonstrating an effective service to our applicants and grantees.

Payables

NHMF adheres to the government-wide standard on bill-paying and the Public Contracts Regulations 2015, which states that all valid bills should be settled within 30 days. In 2016–17 the average age of invoices paid was five working days (2015–16: five working days). Over 95% of invoices were paid within 30 calendar days (2015–16: 96%).

Another way of measuring our commitment to paying suppliers is the ratio of creditor days – the ratio of trade payables at the end of the year to the total value of purchases in the year expressed in terms of calendar days. At 31 March 2017 the figure was 29 days (2015–16: 29 days).

Environmental policies and sustainability reporting

HM Treasury requires all public sector bodies to produce an annual sustainability report. The compilation of this data is unfortunately not an exact science. For example very few of the landlords of our 10 regional and country offices are prepared to provide us with figures for kilowatt hours of gas or electricity used nor are they able to bill quickly enough after a year end to provide figures in time for the production of year-end accounts. As the majority of our offices are small occupancies with private sector landlords, fully robust reporting is a challenge. This means that we have to use estimates for most offices. In addition we have signed a fixed cost contract with the supplier of water to our head office, which means we no longer receive consumption data. The overall position is improving slightly over time but we still have to estimate much of our consumption. From 2013–14 we also started to calculate our carbon dioxide equivalent consumption for water and waste.

Furthermore, the second table (on page 28) reports data on a full time equivalent basis (FTE), ie the level of consumption per member of staff. However, as we

Key performance indicators by year

	Target	2016–17	2015–16	2014–15	2013–14	2012–13	2011–12
Application processing times (months)							
– urgent applications	3	1.0	0.9	0.7	1.3	1.2	1.3
– non-urgent applications	6	4.7	0.9	1.4	2.2	2.6	2.1
Publicising decisions (working days)							
– post decisions on website	14	20	20	10	10	10	10
Grant payment (number of working days after payment request)							
– standard grants	15	2	4	3	5	4	7
– LPOW	10	5	2	n/a	n/a	n/a	n/a

The above indicators and targets will continue into 2017–18.

also include emissions incurred by non-members of staff, eg trustees and certain suppliers, the comparability of some of these numbers, over the years and with other organisations, is difficult to support.

Finally, the conversion factors used to calculate the carbon dioxide equivalent of our emissions vary year on year. Normally the changes are relatively small but for example the figures for certain refrigerants used in air conditioning have risen by around 20% for 2016–17 while others have fallen.

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

Summary of performance

Our greenhouse gas emissions have fallen in 2016–17 on a gross basis and also when looking at the numbers on an FTE basis.

NHMF has control over only one of the properties that it occupies, which is its headquarters at Holbein Place in London. In 2010–11 we replaced the chillers for the air conditioning and the 25-year-old gas boilers for the heating 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. Specifically we would not consider any significant expenditure for long-term benefits until we had renewed our lease at Holbein Place. A rent review is due in 2019.

In the 10 other properties we occupy we are wholly reliant on the landlord to improve performance and that is unlikely to happen between major refurbishments. Our room for further improvement in scope one and two emissions is therefore extremely limited. Over the years we have relocated some of our regional and country offices into smaller premises, which will have reduced consumption. Since May 2011 we have also rented out part of one floor of Holbein Place with the effect of reducing the consumption that we report. We also expect to reduce the size of future office leases with staff being encouraged to hot-desk and work more from home.

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' invoices.

Kilowatt hours are converted to carbon dioxide equivalent tonnes using a conversion factor derived from the tables *UK Government GHG Conversion Factors for Company Reporting*. These tables are available on www.gov.uk/government/collections/government-conversion-factors-for-company-reporting. The conversion data is the joint

responsibility of the Department of Energy and Climate Change (DECC) and the Department for Environment, Food and Rural Affairs (DEFRA).

Indirect energy emissions relate to electricity generated by other organisations and sold directly to us as well as heating that we buy from landlords of our country and regional offices. Information about consumption in kilowatt hours is obtained from our landlords where possible, although their methodologies can vary. Kilowatt hours are converted to carbon dioxide equivalent tonnes using the relevant conversion factor. We are heavily reliant on our landlords to improve efficiency.

Most of our travel is by rail and our main ticket supplier provides us with details of the carbon dioxide equivalent emissions for all journeys undertaken. Similarly our main car hire supplier provides us with data on these emissions. Staff are required to update department spreadsheets with information about all other journeys undertaken by staff, trustees, committee members, expert panellists and suppliers on our register of support services (in effect the monitors and mentors that we appoint to oversee projects that we are co-funding). Department heads are tasked to ensure that their staff record all their travel. The information gathered is converted to tonnes of carbon dioxide equivalent using the relevant parts of the same tables of conversion factors.

Waste

Waste generation has fallen in 2016–17 despite there being some refurbishment work at our head office. However, we have to be careful about the accuracy of numbers because, as discussed in this section, there is no reliable measure of the amount of waste we generate as it is simply taken away by councils and it would not be an appropriate use of resources to procure weighing equipment simply for the purpose of improving our reporting of this figure. We will continue to seek a practical solution to calculating a reliable figure. We believe that the 2015–16 figure was higher than the long-term trend as it was impacted by office moves; it is inevitable that the level of waste increases when an office move occurs as the opportunity is taken to dispose of surplus items accumulated over the years.

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 figures on page 28. Only the Royal Borough of Kensington and Chelsea invoices us separately but we have now started including the cost of removing shredded paper into the figures. We strive to reduce the

Report of the trustees and accounting officer

Sustainability reporting

Area	2016-17	2015-16	2014-15	2013-14	2012-13	2011-12
Greenhouse gas emissions – scopes 1, 2 & 3 which incorporates business travel including international air and rail (tonnes CO ₂ equivalent)	417	635	591	489	550	747
Estate energy – Consumption (mkWh)	0.7	1.1	1.1	0.9	1.1	1.3
– Expenditure (£)	488,315	488,361	429,425	445,624	489,638	384,532
Estate waste – Amount (tonnes)	23	28	26	28	24	19
– Expenditure (£)	19,115	13,268	14,095	12,400	5,518	6,640
Estate water – Consumption (m ³)	4,040	4,350	4,889	5,655	3,757	5,223
– Expenditure (£)	12,089	7,413	11,825	14,182	11,253	18,786

Sustainability reporting normalised by average FTE staff employed in the period

Area per FTE	2016-17	2015-16	2014-15	2013-14	2012-13	2011-12
Greenhouse-gas emissions – scopes 1, 2 & 3 which incorporates business travel including international air and rail (tonnes CO ₂ equivalent)	1.4	2.3	2.3	1.9	2.2	3.3
Estate energy – Consumption (kWh/FTE)	2,524	4,105	4,134	3,595	4,249	5,701
– Expenditure (£)	1,648	1,744	1,639	1,716	1,986	1,679
Estate waste – Amount (tonnes)	0.1	0.1	0.1	0.1	0.1	0.1
– Expenditure (£)	65	47	54	48	22	29
Estate water – Consumption (m ³ /FTE)	13	16	19	22	15	23
– Expenditure (£)	41	26	45	55	46	82

amount of paper that we use and then, inevitably, throw away. Greater sanction is being placed on teams should they exceed their photocopying budget, electronic devices are being distributed to staff to encourage them to have paper-free meetings and we recognise that new offices will have to be smaller than existing ones when leases expire.

We also aim to digitise most of our archive storage during the coming year. This will inevitably lead to a one-off increase in the amount of paper that we dispose of. However, the long-term cost savings should be substantial.

Our country and regional offices are small enough to weigh the waste they generate. There is no reliable way to measure the much greater volume of waste removed by the Royal Borough of Kensington and Chelsea because the council does not tell us the weight of what they remove. We have therefore estimated the amount of waste generated per person based on an estimate of the weight of a standard sack of waste.

Use of resources

Water consumption fell in 2016-17. Where possible we persuade our landlords to provide information about the number of cubic metres of water consumed, which is normally based on the space we occupy rather than by individual metering. In 2015-16 we installed more efficient toilet facilities at our head office. We have also signed a fixed price contract for water supply for our head office.

This has resulted in a much-reduced charge but at the expense of the supplier not providing us with details of actual consumption. Consequently we have used the 2014-15 figure.

Two years ago we undertook a review of electricity consumption at our head office. 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 fallen since then. We signed contracts to cap gas and electricity costs for our head office for 2016-17 and beyond. However, we have to accept that the weather has a bigger influence over our consumption than any improvements we can make to our energy efficiency.

Ros Kerslake OBE

Chief Executive and Accounting Officer

3 July 2017

Accountability report

Corporate governance report

The purpose of this corporate governance report is to explain the composition and organisation of NHMF's governance structures and how they support the achievement of our objectives.

The directors' report

Chair and trustees of NHMF

Chair

Sir Peter Luff ²

Trustees

Baroness Kay Andrews OBE from 1 April 2016

Anna Carragher from 7 October 2016

Sir Neil Cossons OBE

Sandie Dawe CBE ¹

Dr Angela Dean ¹

Sir Roger De Haan CBE ² to 19 January 2017

Jim Dixon ¹

David Heathcoat-Amory ¹ to 19 January 2017

Perdita Hunt DL, OBE ²

Steve Miller

Richard Morris OBE

Atul Patel ²

Dame Seona Reid DBE

Dr Tom Tew

Chief Executive

Carole Souter CBE ² to 2 May 2016

Colin Bailey ² interim from 3 May 2016 to 3 July 2016

Ros Kerslake OBE ² from 4 July 2016

¹ Member of Audit and Risk Committee

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

Details of other senior managers can be found in the remuneration and staff report on page 37.

The gender split of our staff (including those on fixed term contracts) working on exchequer-related activities and our trustees at 31 March 2017 on a headcount basis was as follows:

	Male	Female	Total
Trustees	7	6	13
Directors	0	0	0
Staff	1	10	11

While we disclose eleven staff above, all the directors and staff in the support departments get involved in both our Lottery distribution and grant-in-aid distribution activities. However, as the overwhelming majority of their time is spent on Lottery distribution activities, their statistics are incorporated in those accounts.

Register of Trustees' Interests

As a matter of policy and procedure the trustees declare any direct interests in grant applications and commercial relationships with NHMF and exclude themselves from the relevant grant appraisal, discussion and decision processes within NHMF.

In their contacts with grant applicants trustees seek to avoid levels of involvement or influence that would be incompatible with their responsibilities as a trustee of NHMF. There are corresponding arrangements for staff to report interests and avoid possible conflicts of interest. The Register of Trustees' Interests is available on the HLF website – www.hlf.org.uk.

Future developments

Our standard grant-in-aid will be £5.1million for 2017–18 and £5million for the remaining years of the current Spending Review. However, we have to recognise that NHMF is currently undergoing a tailored review; until its outcome is known we cannot be sure of our grant-in-aid funding beyond 2017–18. There is always high demand for awards, as evidenced by the number of applications and enquiries received this year, so trustees consider a baseline of £5million grant-in-aid is the minimum needed to allow NHMF to meet its statutory duties. In the coming months we will continue to improve our application process by making it fully online from pre-application through to grant payment.

We will also receive grant-in-aid for our LPOW activities – the exact sum depends upon the level of demand for grant and administration payments. We anticipate awarding around £900,000 in grants and grant increases – this will be the last year of awards – but this sum depends upon the level of de-commitments. As the programme is coming to its end – we don't anticipate any further government contributions – most of our LPOW staff are reverting to roles on our Lottery distribution activities.

In 2014–15 we reached the target level for the NHMF endowment meaning the endowment is at the level originally given to us. While the value dipped slightly in 2015–16 it is now well above its target. We have tasked our investment managers with a review to see if capital accumulation is the most appropriate strategy in the medium term.

Appointment of auditors

The 1980 Act provides for the annual accounts of NHMF to be audited by the comptroller and auditor general. The 1993 Act extends this to the Lottery distribution activities of trustees.

Key stakeholders

The key stakeholder of NHMF is DCMS. We are also mindful of the needs of the heritage sector and the population of the UK when making decisions on applications for funding.

Personal data

NHMF has had no incidents where personal data was inadvertently disclosed to a third party and 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 improvement of its systems.

Statement of trustees' and accounting officer's responsibilities

Under section 7(3) of the 1980 Act trustees of NHMF are required to prepare a statement of accounts for each financial year in the form and on the basis determined by the secretary of state for culture, media and sport ('the culture secretary') with the consent of HM Treasury. The accounts are prepared on an accruals' basis and must give a true and fair view of the Fund's state of affairs at the year end and of its income and expenditure, recognised gains and losses and cash flows for the financial year.

In preparing the accounts, trustees of NHMF are required to comply with the government financial reporting manual (FREM) and in particular to:

- i) observe the accounts' direction issued by the culture secretary, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- ii) make judgements and estimates on a reasonable basis;
- iii) state whether applicable accounting standards, as set out in the FREM, have been followed and disclose and explain any material departures in the financial statements; and
- iv) prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Fund will continue in operation.

Following the retirement of Carole Souter in May 2016, the principal accounting officer of DCMS appointed the director of finance and corporate services as interim chief executive and accounting officer for the Fund until the arrival of Ros Kerslake OBE in July 2016. 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 section titled 'Accounting Officers' in *Managing Public Money*.

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

Governance structure



Governance statement

Foreword

I was appointed chief executive and accounting officer on 4 July 2016. My predecessor was Carole Souter CBE, who retired on 2 May 2016.

Colin Bailey, Director of Finance and Corporate Services, was appointed interim chief executive and accounting officer from 3 May to 3 July 2016. He had been in his substantive post prior to this period and reverted to it on 4 July.

I have satisfied myself that there were robust and proper transitional arrangements that allowed the system of internal controls to operate effectively through this transition period. I am also satisfied that there were effective handover arrangements in the transition period.

Introduction

This governance statement is a summary of the arrangements for the stewardship of NHMF, including how we manage risk and how we comply with HM Treasury's 2011 corporate governance code for central government departments.

As the accounting officer for NHMF I am required by the accounts' direction issued by the culture secretary to account separately for my two main sources of income, grant-in-aid and funds derived from the National Lottery. I am also accountable for maintaining a sound system of internal control that supports the achievement of NHMF's policies, aims and objectives, while 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*.

NHMF and HLF are operated as a single entity as I believe that this is more efficient and effective. Consequently there is one governance structure and this statement covers the distribution of both grant-in-aid and Lottery grants.

Governance structure

The governance structure of NHMF is set out in the diagram below.

Board of Trustees

The Board is responsible for:

- giving strategic leadership and direction;
- approving control mechanisms to safeguard public resources;

- approving grant programme and administration budgets;
- supervising the overall management of NHMF activities and;
- reporting on the stewardship of public funds.

The Board operates as a group and held 11 meetings during the year to set NHMF policy and make decisions in line with that policy. These meetings are attended by the chief executive and the Management Board. All Board meetings held in 2016–17 were quorate. Sir Peter Luff is chair of the NHMF and throughout the year regular liaison meetings were held between the chair, the chief executive(s) and directors.

The Board is normally constituted of 15 trustees including the chair, which is the maximum permitted. In 2016–17 it was decided to reduce the overall number of trustees to align better to HM Treasury's corporate governance code for central government departments and improve the efficacy of the Board. The number has been reduced to 13 trustees following the retirement of Sir Roger De Haan CBE and David Heathcoat-Amory when their terms of office expired in January 2017.

These changes were approved by DCMS and the prime minister (as trustee appointments fall within the remit of the prime minister). The department and the prime minister also agreed that some other trustees' terms could be extended or a second term given to sensibly stagger future appointments over the next few years.

Baroness Kay Andrews OBE took over as trustee for Wales from April 2016 and Anna Carragher was appointed as trustee for Northern Ireland from October 2016.

The overall attendance rate of trustees at Board meetings was 92%. Trustees also delegated some of their tasks to the three committees shown on page 30 – these committees oversee the activities of management and provide guidance and support to senior staff. The minutes of committee meetings are standing items at the Board's meetings. The committee chairs also provide a full report on their activities.

Attendance at Board meetings throughout 2016–17 was as follows:

Trustee	Eligible meetings	Meetings attended
Sir Peter Luff	11	11
Baroness Kay Andrews OBE	11	10
from 1 April 2016		
Anna Carragher from 7 October 2016	6	6
Sir Neil Cossons OBE	11	10
Sandie Dawe CBE	11	9
Sir Roger De Haan CBE to 19 January 2017	9	8

Dr Angela Dean	11	11
Jim Dixon	11	9
David Heathcoat-Amory to 19 January 2017	9	9
Perdita Hunt DL, OBE	11	10
Steve Miller	11	10
Richard Morris OBE	11	10
Atul Patel	11	11
Dame Seona Reid DBE	11	10
Dr Tom Tew	11	10

During the year the Board also decided to set up delegated decision making panels, comprised of a subset of trustees, for some of the programmes. In 2016–17 these dealt with the Townscape Heritage, Heritage Endowments and Skills for the Future programmes. In 2017–18 they will consider the Kick the Dust and Parks for People programmes (the latter along with representatives from Big Lottery Fund).

Board composition

Of the 15 trustees who attended the Board throughout the year 40% were female and 60% were male. One (7%) came from an ethnic minority group.

Board conflicts of interest

At the beginning of each Board meeting all trustees and staff are asked to declare any potential conflicts of interest. These are noted in the minutes and trustees and staff remove themselves from Board discussions on those matters. Trustees and staff are also responsible for ensuring that entries in the Register of Trustees' Interests are maintained and updated as necessary.

Audit and Risk Committee

The committee met on four occasions during the year and was quorate at each meeting. Following the committee's training in 2014–15 several improvements have been made to further increase the effectiveness of the committee. These have continued successfully throughout 2016–17, for example in-camera pre-meetings by the trustees and with the auditors, standing items on internal audit recommendations' completion and procurement exceptions.

The chief executive and the director of finance and corporate services attended each committee meeting, with other senior staff attending as required. The committee is supported and serviced by the Fund's Secretariat. The Fund's external auditors (National Audit Office) and internal auditors (Moore Stephens) also attend the meeting.

The committee agreed a three-year audit strategy with Moore Stephens upon its appointment. The reviews carried out in 2016–17 and reported to the committee were in line with this strategic approach. A detailed one-year plan of internal audit reviews is approved annually.

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During the year the committee considered reports on:

- grant project post-completion monitoring;
- records and information management;
- budgetary controls and performance management;
- core financial systems;
- Human resources (HR) processes and;
- procurement and contract management.

Committee meeting minutes are shared with the Board as is a formal annual report on business. The committee chair orally updates the Board on committee business and decisions.

The committee also reviews the annual reports and accounts for both NHMF and HLF. During 2016–17, in addition to the above reports and accounts, the committee also considered the following:

- the arrangements for continuing the new risk management processes at departmental level;
- fraud and alleged fraud cases and;
- procurement arrangements including any exceptions to normal procurement tenders.

The committee improved the reporting arrangements for cases of fraud and alleged fraud to improve transparency, understanding of the different types of case and progress in the investigation of such cases.

Attendance at committee meetings throughout 2016–17 was as follows:

Trustee	Eligible meetings	Meetings attended
Dr Angela Dean <i>Chair</i>	4	4
Sandie Dawe CBE	4	4
Jim Dixon	4	1
David Heathcoat-Amory <i>to 19 January 2017</i>	3	3

Finance, Staffing and Resources Committee

The committee met on three occasions during the year and was quorate at each meeting. It is chaired by a trustee. The committee also met on a fourth occasion, sitting as the Remuneration Committee, to agree performance bonuses for senior staff.

The chief executive attended each committee meeting as a member. The director of finance and corporate services and the director of operations attend meetings with other senior staff attending as required. The committee is supported and serviced by the Secretariat.

The committee has oversight on staffing and recruitment controls exercised by senior managers. During the year the committee also reviewed and approved:

- management accounts and financial management information (including efficiency targets);
- performance data against operational and service standards;
- other performance management data;
- staffing levels and personnel data such as sickness absence, training and development spending;
- IT investment propositions and;
- functional strategies for IT, estates, HR and finance.

The committee approved the proposed budgets for grant programmes and administration for submission to the Board. The committee also recommended our 2017–18 annual operating plan ('the Business Plan').

Committee meeting minutes are shared with the Board as is a formal six-monthly report on business. The committee chair orally updates the Board on committee business and decisions.

Attendance at committee meetings throughout 2016–17 was as follows:

Trustee	Eligible meetings	Meetings attended
Atul Patel <i>Chair</i>	3	3
Colin Bailey <i>as acting CEO</i>	1	1
Ros Kerslake OBE <i>from 4 July 2016</i>	2	2
Sir Peter Luff	3	2
Sir Roger De Haan CBE <i>to 19 January 2017</i>	2	2
Perdita Hunt DL, OBE	3	1

Communications Committee

The committee met on three occasions during the year and was quorate at each meeting. It is chaired by a trustee. In December 2016 it was decided the work of the committee could be done more effectively through day-to-day liaison between the chair, the chief executive and trustees as and when needed. The committee was wound up at this point.

Attendance at committee meetings throughout 2016–17 was as follows:

Trustee	Eligible meetings	Meetings attended
Jim Dixon	3	1
Sir Peter Luff	3	3
Dame Seona Reid DBE	3	1
Dr Tom Tew	3	3

Delegated grant decision making

Trustees have delegated their grant decision making responsibilities for certain types and values of Lottery awards to country and regional committees. There are 12 committees and each contains a trustee. In addition to making grant decisions, these committees provide advice to the Board

on priorities within their area and act as advocates for the organisation's work as a Lottery distribution body. Chairs of country and regional committees meet with the chair of the Board and the chief executive, along with senior staff, twice a year.

New members of these committees have a formal induction with the chief executive and senior staff throughout the year depending on the recruitment and appointment cycle. In 2016–17 we undertook formal induction sessions for several new members.

Trustees have also delegated grant decision making for grants under £100,000 to staff, specifically heads of operations in countries and regions. An annual report on the impact of delegated grants across all committees is presented to the Board. All decisions made by committees and staff are reported to the Board.

Management Board

The Board delegates day-to-day management to the chief executive who is supported by the Management Board, which consists of all directors and deputy directors. The Management Board meets weekly to agree management actions and responses on operating matters. Each departmental director provides a monthly report to the Board on activities and issues within their remit. The chief executive also holds regular meetings with the Managers' Forum consisting of senior and middle managers and ensures Board decisions and directions are communicated directly to key staff. These meetings include verbal reports on activities across all departments as well as discussion of thematic issues affecting all teams, eg risk management and business planning.

Structure

The chief executive operates a four-department structure of:

- Operations;
- Strategy and Business Development;
- Communications and;
- Finance and Corporate Services.

The Secretariat team reports directly into the chief executive.

The Business Plan is developed each year alongside financial budgets and grant programme planning. As previously, this year we also integrated risk management into the business planning process. The Business Plan is discussed with DCMS, which also sets policy directions and financial directions with which we have complied in our Lottery activities. The Scottish and Welsh governments have also issued some policy directions with regard to Lottery activities in Scotland and Wales respectively, which we have complied with.

We operate in line with a Management Agreement and Financial Memorandum ('Management Agreement') between ourselves and DCMS. This is supplemented by regular meetings with DCMS officials and other National Lottery distributors. The Management Agreement was refreshed this year and a new agreement was put in place for 2016–20. There were no substantive changes to this to report.

In February 2017 it was announced that we would be subject to a tailored review of our work, to be led by DCMS. This is due to report in 2017–18.

Risk management and internal control

Our system of risk management and internal control is designed to manage risk to an acceptable level rather than eliminate risk to policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance. In particular I am clear that the approach of risk management should not stifle innovation or business change where this is needed. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of policies, aims and objectives and to evaluate the likelihood of those risks being realised and the impact of them if they did.

All policy setting and grant decision making is informed by the risk management culture and approach of NHMF. In 2014–15 the Management Board overhauled our risk management approach as part of a wider exercise on assurance across NHMF. In 2015–16 we embedded this further into individual departments, each with its own replicated risk identification and management process. Each department now has its own risk register in support of the corporate risk register. We have continued to operate this approach in 2016–17.

The registers and underpinning process assign a risk owner who is accountable to the chief executive for the effective management of that risk. The registers also identify associated risks so that any multiplier effect is taken into account. It also distinguishes between the inherent (impact and probability) and the residual level of risk so that it is possible to judge the effectiveness of existing controls and mechanisms for mitigating the risk. This also permits the risk owner to identify further measures needed to bring the risk within our risk appetite and the specific dates for those measures to be taken.

The Board also reviewed its risk appetite for 2017–18. The changes reflect greater appetite for business change and transformation and lesser appetite for business continuity. The Board also recognised the risks and challenges facing NHMF in 2017–18, especially in its Lottery distribution role, which are expected to evolve from the most significant areas

Report of the trustees and accounting officer

of risks for 2016–17 as set out below. Effective risk management in the year ahead will be particularly important.

We also recognise that considered risk taking and innovation to achieve NHMF objectives should be encouraged. I believe that the Fund demonstrates innovation in its choice of grant awards and does not simply resort to making risk-free decisions.

To this end we are prepared to accept that some of the organisations to whom we give grants will not subsequently demonstrate full competence in the administration of that grant. We learn our lessons, improve our processes and in rare circumstances write off the grant. In cases where we suspect fraud or improper behaviour we will report the case to the police for further investigation. I approve all write-offs and this allows me to monitor the total amount written off each year to provide assurance on our assessment and monitoring procedures.

As can be seen from note 18 on page 55, the level of grant write-off is extremely small relative to the level of grants that we distribute each year. On the other hand the high level of customer satisfaction demonstrated in independent surveys suggests that our working practices are not too onerous on applicants. Consequently I am able to conclude that there is no cause for concern about the level of risk implicit in our grant-giving processes.

In 2016–17 NHMF considered the following to be the most significant areas of risk:

- we are not seen as effective in protecting heritage across the UK;
- past Lottery investment is put at risk because of reductions in funding/investment or changes in operating models of grantees;
- devolution may require changes to our business model;
- volume, variability and volatility of workloads;
- adverse impacts arising from exiting the European Union and;
- fluctuations in our funding from the National Lottery.

In respect of the risk concerning fluctuations in our funding from the National Lottery, after several years of record levels of income our Lottery income reduced in 2016–17 and there have been fluctuations in income throughout the year. We are working alongside DCMS, the Gambling Commission, Camelot and other National Lottery distributors to understand the root causes of these fluctuations and how these may be successfully mitigated where possible. We have also agreed other actions with these stakeholders to help promote the National Lottery brand and its proceeds for good causes.

Each of these risks has a risk owner on the Management Board charged with managing it and ensuring appropriate mitigation actions are undertaken.

LPOW

In the Autumn Statement of December 2014 and the March 2015 Budget the chancellor of the exchequer announced that NHMF would administer a grant scheme for listed places of worship across the UK. The original value of the first part of the programme was £30million in 2014–15 and a further £25million was announced for 2016–17.

Applications for the second round were invited to be submitted by the end of February 2016 and were subsequently managed and processed successfully. To continue managing the risk of this extra programme we have:

- proceeded with the appointment of a senior, experienced programme director to manage the end-to-end process;
- close oversight by a deputy director of operations to provide additional assurance;
- the use of experienced and risk-aware staff in support functions to help operational delivery;
- a separate funding agreement with DCMS and;
- the replication of existing, well-established controls, processes and systems.

This approach allowed us to successfully deliver the second round application stage. Grant announcements and decisions were made in summer 2016. In agreement with DCMS and HM Treasury, funding of £1million has been transferred from 2016–17 to 2017–18 to allow us to complete the final stages of our remaining projects.

Approach to fraud and information risk

NHMF has a fraud policy that is reviewed on an annual basis. All NHMF staff undertook bespoke fraud awareness training in 2015–16, which was delivered by a specialist assurance team from Moore Stephens supported by the NHMF's finance team and focused on fraud risk in:

- grant giving;
- procurements and;
- general fraud areas.

The training also identified fraud risk areas for NHMF and how they might be identified and combatted. We have progressed this with new online training in this area in 2016–17.

In 2014–15 we improved risk-awareness and intelligence-gathering arrangements with other National Lottery distributors, which we continued this year with better sharing of information, combined resources and consideration of the use of specialist third parties to identify fraud risk.

NHMF also has an information risk policy that is compliant with Cabinet Office guidance and the security policy framework. All new staff receive guidance in information security, data protection and freedom of information as part of their induction.

During 2015–16 we undertook a specialist review of information assurance and management. Overall findings were satisfactory but we identified a number of specific issues, some of which we acted on in 2016–17. We recognise that there is more to do in this area and further work is planned in 2017–18.

We also comply with government guidance on transparency of spend, contracts etc. In 2016–17 we continued to improve procurement controls and processes.

Business-critical models

I consider we are compliant with the recommendations contained within *The Macpherson Report*. I judge that we use one business-critical model, the cash flow forecast used for setting annual grant budgets out of our National Lottery income. We aim to ensure that we award the highest amount possible in terms of grants without the risk of running out of cash or over-extending ourselves. The model was created around 10 years ago and remains largely in its original form other than extending its lifecycle. The model has been employed against scenarios of differing levels of Lottery income, one-off contributions to the London 2012 Olympics and significant new grant programmes. We have found that it provides a reasonable forecast of our financial sustainability.

In 2014–15, based on the model, the Board created a financial framework setting out grant ratios linked to the total level of commitments, approved actual liabilities, income from the National Lottery and our balance at the National Lottery Distribution Fund (NLDF). We therefore believe that the model and the financial framework provide a robust basis for our grant giving. We have continued to use this approach in 2016–17.

The model is updated each year to reflect the latest projections of National Lottery income provided by DCMS and with the financial outturn for the previously completed year. The model including the financial framework is also stress-tested against different scenarios using the parameters set out in the financial framework.

Board performance and effectiveness

The most significant activity for the Board has been oversight of the continuing rollout of Strategic Framework 4 (SF4) including the application of it to Board decisions. In 2015–16 the Board also undertook a mid-cycle review of SF4 and a forward look to the possible operating environment and risks emerging over the next few years.

This meant that in 2016–17 we introduced:

- new programmes to respond to the needs of the heritage sector – including Heritage Endowments (building on the success of previous endowment programmes), Skills for the Future (again building on the previously successful model) and Resilient Heritage (combining previous programmes designed to build organisational sustainability in the sector) and;
- a new programme for young people for decisions in 2017–18.

The rise in National Lottery income since 2012–13 has stopped. Income in 2016–17 was £327million. The latest assumption suggests that income will continue at or close to this level. In view of this and in line with the financial framework (including the balance in the NLDF account) the Board agreed to reduce the programme grant budget in 2017–18 to more historic average levels of £300million.

Nothing of concern emerged from any of the committees supporting the Board. Report findings from both the internal and external auditors were satisfactory during the year.

Board membership changed in 2016–17 although not as much as in previous years, which has meant a reduction in the degree of churn among trustees.

The Board undertook an interim review of its skills through a self-assessment model. It is satisfied that it continues to meet the requirements of HM Treasury's corporate governance code.

The main findings of this review were that the Board should improve the balance of its skills and competencies and increase its diversity. We will look to do this through forthcoming appointments.

To supplement these skills the Audit and Risk Committee and the Finance, Staffing and Resources Committee agreed to appoint non-executive independent members to join the trustees on the committees with appointments expected in early 2017–18.

There were no matters from the auditors put to the Audit and Risk Committee on behalf of the Board that gave it cause for any concern. In consequence the Board believes that it can rely on the information and assurance provided by management for its decision making.

All newly-appointed trustees receive induction at the time of their appointment that sets out their obligations and duties as a trustee and explains the work of NHMF and its systems and processes thereby helping them make a full contribution to the workings of the Board. This formal induction programme is continued through an ongoing programme of events and other training

Report of the trustees and accounting officer

opportunities for trustees. The effectiveness of trustees is appraised by the chair on a regular basis. The chair's performance is also overseen by the senior independent trustee (the chair of the Audit and Risk Committee).

The governance year

As accounting officer I have responsibility for reviewing the effectiveness of the systems of internal control. My review is informed by the work of the internal auditors (Moore Stephens) and senior management within NHMF, who have responsibility for ensuring the effective maintenance and implementation of the internal control framework, alongside comments made by the external auditors in their management letter and other reports.

All senior staff have performance agreements set at the beginning of the year that articulate their personal and corporate objectives for the year. These are linked to the Business Plan and our strategy and are assessed formally during mid- and end-year reviews. I also hold informal meetings with directors on a one-to-one basis throughout the year. Management Board meets weekly and directors of departments also meet regularly.

I have seen the management letter prepared by the external auditors following their audit of the financial statements for the year ended 31 March 2017.

As a result of their programme of work, the internal auditors have produced an opinion and annual certificate of assurance with regard to the adequacy of the systems and the operation of internal controls within NHMF. This opinion states that there is some risk that management's objectives may not be fully achieved. Improvements are required in those areas to enhance the adequacy and/or effectiveness of governance, risk management and internal control. I recognise that this indicates a slight worsening of the opinion since 2015–16, which is mainly the result of one audit on our management of records and storage of data. Management readily accepted the findings and two projects have been given the go-ahead to deal with the problem – digitisation and a corporate file plan.

Upon appointment, the internal auditors produced a three-year audit strategy. Last year covered the third year of this period and all intended reviews were undertaken and completed on time. The annual plan is extracted from the audit strategy and linked into the risk register and risk appetite.

In 2014–15 we introduced new quarterly liaison meetings with the internal auditors to help monitor progress against the plan and redirect resources to emerging risks. These have continued to be used to monitor progress and delivery of the programme. We also introduced new controls in 2014–15 to improve accountabilities on audit

reviews and the implementation of internal audit recommendations. These have continued in 2016–17 and recommendations that were due to be implemented in 2016–17 have been implemented satisfactorily.

All reports of the internal auditors are discussed by the Audit and Risk Committee with senior members of staff in attendance including those whose departments were reported upon. This gives me and the Committee the opportunity to discuss the findings, recommendations and proposed management actions in detail. Where recommendations for improvements or correction were accepted directors also had to provide an implementation response and timetable for each recommendation. The implementation of these recommendations are tracked and monitored by the Finance and Corporate Services department and the internal auditors. That control list is also seen as a standing item by the Audit and Risk Committee.

I also require all senior and middle managers to sign annual memoranda of representation to me, detailing their responsibilities and confirming they have carried them out in 2016–17. All managers have signed the memorandum and they are aware that I have placed reliance on those assertions in this statement.

From April 2015 letters of delegated authorities for all directors were introduced, setting out their delegated authorities (financial, procurement etc.) to be agreed at the start of the year to complement the memorandum at the year end. This cycle has been completed in 2016–17.

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

Ros Kerslake OBE

Chief Executive and Accounting Officer

3 July 2017

Remuneration and staff report

Remuneration of the chair and trustees

All trustees were entitled to receive an annual salary for time spent on the activities of NHMF. In addition NHMF reimbursed travel expenses of certain trustees when travelling from their homes to their office of employment in London, Edinburgh, Cardiff or Belfast. NHMF also provided trustees and members of regional and country committees with meals when they were holding meetings at their places of employment. The Fund met the tax liability on all of these expenses. Sir Roger De Haan CBE waived his right to receive a salary in 2016–17.

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, which are potentially renewable for a second term. They are not members of the pension scheme used by NHMF. No contributions were made by the Fund to a pension scheme on the trustees' behalf.

Trustees' remuneration was allocated between NHMF and its Lottery distribution activities on the basis of 1:99%. The total remuneration of trustees in 2016–17 was £203,228 (2015–16: £162,440). 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.

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.

The total accrued pension 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. Members of the Civil Servants and Others Pension Scheme ('alpha') receive benefits at their normal pension age, which is equal to the member's state pension age (or 65 if higher).

Cash equivalent transfer values (CETV)

CETV is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership

Remuneration of the chair and trustees (audited information)

	2016–17 £'000	2015–16 £'000
Sir Peter Luff <i>Chair</i>	40–45	35–40
Baroness Kay Andrews OBE		
from 1 April 2016	20–25	0
Anna Carragher		
from 7 October 2016	10–15	0
Sir Neil Cossons OBE	10–15	0–5
Sandie Dawe CBE	5–10	5–10
Dr Angela Dean	5–10	5–10
Sir Roger De Haan CBE		
to 19 January 2017	0–5	0–5
Jim Dixon	10–15	10–15
David Heathcoat-Amory		
to 19 January 2017	5–10	5–10
Perdita Hunt DL, OBE	5–10	5–10
Steve Miller	10–15	5–10
Richard Morris OBE	10–15	5–10
Atul Patel	15–20	10–15
Dame Seona Reid DBE	20–25	25–30
Dr Tom Tew	10–15	10–15

of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The figures include the value of any pension benefit in another scheme or arrangement that the member has transferred to the civil service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out in accordance with the Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from lifetime allowance tax that may be due when pension benefits are taken.

Real increase in CETV

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

All senior employees had permanent contracts of employment and were ordinary members of the Principal Civil Service Pension Scheme (PCSPS) or alpha. Their costs were allocated between HLF and NHMF on the basis of 99:1% (2015–16 – 99:1%). The remuneration of senior managers is performance-related. The sum is based on performance against individual objectives and overall contribution to corporate strategy and

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Remuneration of employees (audited information)

The remuneration of directors is set out in the table below and the table on page 39.

	Salary 2016–17 £'000	Salary 2015–16 £'000	Bonus 2016–17 £'000	Bonus 2015–16 £'000	Pension benefits accrued during 2016–17 ³ £'000	Pension benefits accrued during 2015–16 £'000	Total 2016–17 £'000	Total 2015–16 £'000
Ros Kerslake OBE Chief Executive and Accounting Officer <i>from 4 July 2016</i>	100 to 105	n/a	0 to 5	n/a	39	n/a	140 to 145	n/a
Eilish McGuinness Director of Operations	80 to 85	80 to 85	0 to 5	0 to 5	18	79	105 to 110	165 to 160
Judith Cligman Director of Strategy and Business Development	95 to 100	95 to 100	0 to 5	0 to 5	21	30	120 to 125	125 to 130
Colin Bailey Director of Finance and Corporate Services <i>Interim Chief Executive from 3 May 2016 to 3 July 2016</i>	100 to 105	100 to 105	5 to 10	0 to 5	30	27	140 to 145	130 to 135
Louise Lane Director of Communications ² <i>from 1 April 2016</i>	80 to 85	n/a	0 to 5	n/a	60	n/a	145 to 150	n/a
Robin Seedhouse Acting Director of Finance and Corporate Services ¹ <i>from 3 May 2016 to 3 July 2016</i>	10 to 15	n/a	0	n/a	2	n/a	15 to 20	n/a
Carole Souter CBE Chief Executive <i>to 2 May 2016</i>	15 to 20	135 to 140	0	5 to 10	3	46	15 to 20	195 to 200

Some of the comparative figures have been changed to reflect re-calculations of accrued pension rights.

1 for the period in post

2 from 1 April 2016, the director of communications role was re-graded to a senior management role.

3 the value of pension benefits accrued during the year is calculated as the contributions made by the individual subtracted from the sum of the real increase in pension multiplied by 20. The real increase excludes increases due to inflation or any increase or decrease due to a transfer of pension rights.

goals. Individual objectives for the chief executive are set by the chair of the Board 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 them. The Fund has a performance management system, which performance is reviewed in line with. Performance is reviewed annually in March–April and rated on a scale of four levels of achievement. There is a bonus scheme for directors that takes into account the Finance, Staffing and Resources Committee's (membership of this committee is disclosed on page 32) view of the individual's contribution towards the wider success of the organisation, with particular reference to:

- the 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 that 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 HM Treasury or DCMS.

Remuneration ratio (audited information)

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

The annualised banded remuneration of the highest paid director in 2016–17 was £140,000 to £145,000 including bonus. This was about 5.2 times the median remuneration of the workforce, which was £27,100 (2015–16: £27,059). There were no employees who

	Real increase in pension and lump sum £'000	Total accrued pension at age 60 and lump sum £'000	Cash Equivalent Transfer Value (CETV) at 31/03/17 £'000	CETV at 31/03/16 £'000	Real increase in CETV funded by NHMF £'000
Ros Kerslake OBE Chief Executive and Accounting Officer <i>from 4 July 2016</i>	0 to 2.5	0 to 5	36	n/a	28
Eilish McGuinness Director of Operations	2.5 to 5 and 2.5 to 5 lump sum	20 to 25 plus 60 to 65 lump sum	419	384	14
Judith Cligman Director of Strategy and Business Development	0 to 2.5 and 2.5 to 5 lump sum	35 to 40 plus 115 to 120 lump sum	846	791	20
Colin Bailey Director of Finance and Corporate Services <i>Interim Chief Executive from 3 May 2016 to 3 July 2016</i>	0 to 2.5 and 0 lump sum	0 to 5 plus 0 to 5 lump sum	82	49	23
Louise Lane Director of Communications ² <i>from 1 April 2016</i>	2.5 to 5 and 7.5 to 10 lump sum	20 to 25 plus 60 to 65 lump sum	462	n/a	60
Robin Seedhouse Acting Director of Finance and Corporate Services ¹ <i>from 3 May 2016 to 3 July 2016</i>	0 to 2.5	35 to 40	634	n/a	2
Carole Souter Chief Executive <i>to 2 May 2016</i>	0 to 2.5 and 0 to 2.5 lump sum	60 to 65 plus 185 to 190 lump sum	1,437	1,393	3

Some of the comparative figures have been changed to reflect re-calculations of accrued pension rights.

1. for the period in post

2. from 1 April 2016, the director of communications role was re-graded to a senior management role.

received remuneration in excess of the highest paid director. The highest paid director was subject to the government's 1% cap on pay increases.

Exit packages (audited information)

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 were none in 2016–17 (2015–16: none).

Staff costs and numbers (audited information)

	2016–17 £'000	2015–16 £'000
Salaries	277	214
Employer's NI payments	14	10
Payments to pension scheme	53	44
Temporary staff costs	2	1
	346	269

Additional costs of £12,304,000 have been allocated to Lottery distribution activities and are reflected in those accounts.

The average number of employees during the year was as follows:

	2016–17 Number	2015–16 Number
Grant applications	11	10
Finance and corporate services	0	0
Strategy and business development	0	0
Communications	0	0
	11	10

The above figures are disclosed as FTE and include an average of one staff on a fixed term contract. Additionally an average of 265 permanent staff and nineteen on fixed term contracts were employed on Lottery distribution activities.

Pensions

Pension benefits are provided through civil service pension arrangements. From 1 April 2015 a new pension scheme for civil servants, alpha, which provides benefits on a career average basis with a normal pension age equal to the member's state pension age (or 65 if higher), was introduced. From that date all newly appointed civil servants and the majority of those already in service joined alpha. Prior to that date civil servants participated in PCSPS, which has four sections: three providing benefits on a final salary basis (classic, premium and classic plus) with a normal pension age of 60; and one providing benefits on a whole career basis (nuvos) with a normal pension age of 65.

These statutory arrangements are unfunded with the cost of benefits met by monies voted by parliament each year. Pensions payable under classic, premium, classic plus, nuvos and alpha are increased annually in line with legislation for pension increases. Existing members of PCSPS who were within 10 years of their normal pension age on 1 April 2012 remained in PCSPS after 1 April 2015. Those who were between 10 years from their normal pension age and 13 years and 5 months from their normal pension age on 1 April 2012 will switch into alpha between 1 June 2015 and 1 February 2022. All members who switch to alpha have their PCSPS benefits banked, with those who have earlier benefits in one of the final salary sections of PCSPS having those benefits based on their final salary when they leave alpha. Members who joined from October 2002 may opt for either the appropriate defined benefit arrangement or a money purchase stakeholder pension with an employer contribution (partnership pension account).

Employee contributions are salary-related and range between 3% and 8.05% of pensionable earnings for members of classic (and members of alpha who were members of classic immediately before joining alpha) and between 4.6% and 8.05% for members of premium, classic plus, nuvos and all other members of alpha. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition a lump sum equivalent to three years of initial pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic there is no automatic lump sum. Classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as per premium. In nuvos a member builds up a pension based on their pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the

member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with pensions increase legislation. Benefits in alpha build up in a similar way to nuvos except that the accrual rate is 2.32%. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The partnership pension account is a stakeholder pension arrangement. Employers contributions of £1,791 (2015–16: £179) were paid to two of a panel of appointed stakeholder pension providers. NHMF makes a basic contribution of between 8% and 14.75% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of providers. The employee does not have to contribute, but where they do make contributions the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.5% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

There is currently one member of staff working on NHMF business with a partnership pension account.

No member of staff retired early on health grounds during 2016–17.

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus, 65 for members of nuvos and the higher of 65 or state pension age for members of alpha. The pension figures quoted for directors show pension earned in PCSPS or alpha as appropriate. Where the director has benefits in both PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes, but note that part of that pension may be payable from different ages.

Further details about Civil Service pension arrangements can be found at the website www.civilservicepensionscheme.org.uk.

Although the schemes are defined benefit schemes, liability for payment of future benefits is a charge to PCSPS or alpha. Departments, agencies and other bodies covered by PCSPS and alpha meet the cost of pension cover provided for the staff they employ by payment of charges calculated on an accruing basis. For 2016–17, employer's contributions of £53,053 (2015–16: £43,995) were paid to PCSPS and alpha at the rates set out as follows:

Staff costs for 2016–17 were as follows:

Salary in 2016–17	% in 2016–17
£22,500 and under	20.0%
£22,501–£45,000	20.9%
£45,001–£76,000	22.1%
£76,001 and above	24.5%

Employer contributions are to be reviewed every four years following a full valuation by the actuaries of the schemes. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the schemes.

The employer's payments were calculated on the basis of salary banding as per the Civil Service pension scheme website.

Sickness absence

In 2016–17, 1,029 days were lost due to 353 sickness episodes. This continues to represent a modest 1.44% of all working days (2015–16: 1.79%). The Fund continues to support and promote wellbeing policies through its provision of an employee assistance scheme and other related benefits.

Employee consultation

The nature of the operations of the Fund means that staff who process grant applications 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 the development of the Fund and its operations. Additionally, through summaries of Management Board meetings in monthly internal newsletters, face-to-face meetings and a high level of personal accessibility, senior management ensures 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 and to achieve their own potential through regular consultation and discussion. In 2016 the joint agreement recognising the FDA Union and the Public and Commercial Services Union was in its first year and regular meetings were held with management throughout the year.

The Fund also received the outcomes from its first employee engagement survey, which achieved an engagement index figure of 75% based on a 92% response rate.

The Fund also successfully retained its Investors in People accreditation with staff participating in a survey as part of the process that gave feedback on the learning and development function the Fund provides.

Equal opportunities

Commitment to equality and diversity

The Fund is committed to its legal requirements and obligations under the Disability Discrimination Act 1995, the Disability Equality Duty 2006 and the Equality Act 2010. We proactively work towards increasing equality and diversity in grant making, governance and the workforce through our corporate priority and the actions set out in our Inclusion Action Plan.

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. We replaced our subscription to the Two Ticks Disability Scheme with the new Disability Confident employer standard in August 2016.

Around 4% of our workforce is made up of people with declared disabilities (2015–16: 3.3%). The Fund also 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. All staff are required to cooperate in making this policy work effectively.

During the past year our Staff Disability Action Group continued to meet and also to invite selected charities to attend and present to staff. These have been well attended and the format ensures colleagues in regional and country offices are able to attend sessions via video conference, which has increased the number of participants. In 2016–17 representatives from the British Dyslexia Association and the Shaw Trust presented to staff. We continued to support Leonard Cheshire Disability's programme, Change 100, hosting one of its participants as an intern based in our Scotland office.

Expenditure on consultancy

NHMF spent £0 on consultants in 2016–17 (2015–16: £0). NHMF has used the definitions of consultancy contained within annex 6.1 of the Cabinet Office controls guidance: version 4.0.

Tax arrangements of public sector employees

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

Report of the trustees and accounting officer

and to pay tax under the PAYE scheme. All senior staff, trustees and regional and country committee members are on the payroll of NHMF and therefore pay tax and national insurance contributions through the PAYE route. We have no contractors that do not meet HM Treasury guidance.

Pension liabilities

The Fund makes contributions to the pension schemes of staff. Other than making these payments the Fund has no pension liabilities.

Ros Kerslake OBE

Chief Executive and Accounting Officer

3 July 2017

Parliamentary accountability and audit report

The certificate and report of the comptroller and auditor general to the houses of parliament and Scottish Parliament

I certify that I have audited the financial statements of the National Heritage Memorial Fund for the year ended 31 March 2017 under the National Heritage Act 1980. The financial statements comprise: the statement of comprehensive net expenditure, financial position, cash flows, 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 and staff report that is described in that report as having been audited.

Respective responsibilities of the trustees, accounting officer and auditor

As explained more fully in the statement of trustees' and accounting officer's responsibilities, the trustees and chief executive as the accounting officer are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the National Heritage Act 1980. 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 circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the National Heritage Memorial Fund; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements 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 report.

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:

- i) the financial statements give a true and fair view of the state of the National Heritage Memorial Fund's affairs as at 31 March 2017 and of its net expenditure for the year then ended; and
- ii) the financial statements have been properly prepared in accordance with the National Heritage Act 1980 and secretary of state directions issued thereunder.

Opinion on other matters

In my opinion:

- i) the part of the remuneration and staff report to be audited has been properly prepared in accordance with secretary of state directions made under the National Heritage Act 1980; and
- ii) the information given in the performance report and accountability report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

- i) adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- ii) the financial statements and the part of the remuneration and staff report to be audited are not in agreement with the accounting records and returns; or
- iii) I have not received all of the information and explanations I require for my audit; or
- iv) 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

3 July 2017

National Audit Office

157–197 Buckingham Palace Road

Victoria

London SW1W 9SP

The financial statements

Statement of comprehensive net expenditure

for the year ended 31 March 2017

	Notes	£'000	2016-17 £'000	2015-16 £'000
Sundry operating income	3		0	421
New standard awards made in the year	12	(8,827)		(4,623)
LPOW* awards made in the year	12	(23,685)		(2,122)
De-committed awards	12	1,418		3,723
			(31,094)	(3,022)
Staff costs (as per remuneration and staff report)		(346)		(269)
Depreciation	8	(2)		(3)
Other operating charges	4	(648)		(808)
			(996)	(1,080)
Operating expenditure			(32,090)	(4,102)
Operating deficit			(32,090)	(3,681)
Profit on the sale of investments	5	646		6
Interest receivable	6	26		37
Non-operating income			672	43
Comprehensive net expenditure transferred to the accumulated fund			(31,418)	(3,638)
Other comprehensive income				
Net gain/(loss) on revaluation of available for sale financial assets	16		6,130	(845)
Total comprehensive expenditure for the year ended 31 March 2017			(25,288)	(4,483)

* Listed Places of Worship: Roof Repair Fund

The statement of comprehensive net expenditure excludes the Lottery activities of NHMF, which are separately reported in the accounts of the trustees' Lottery distribution activities. All figures shown relate to continuing activities. The notes on pages 48 to 55 form part of these accounts.

Statement of changes in equity for the year ended 31 March 2017

	Fair value reserve £'000	Income and expenditure account £'000
Balance at 31 March 2015	10,690	648
Changes in taxpayers' equity in 2015–16		
Net loss on revaluation of investments	(845)	0
Comprehensive net expenditure transferred to the accumulated fund	0	(3,638)
Grant-in-aid from DCMS	0	21,541
Balance at 31 March 2016	9,845	18,551
Changes in taxpayers' equity in 2016–17		
Net gain on revaluation of investments	6,130	0
Comprehensive net expenditure transferred to the accumulated fund	0	(31,418)
Grant-in-aid from DCMS	0	35,250
Balance at 31 March 2017	15,975	22,383

The fair value reserve relates to the difference between book cost and market value of the investments in the endowment fund (see note 9 on page 50). The difference between book and market value of property, plant and equipment (see note 8 on page 50) is not material.

Statement of financial position as at 31 March 2017

	Notes	31 March 2017 £'000	31 March 2016 £'000
Non-current assets			
Property, plant and equipment	8	6	6
Long-term financial assets available for sale	9	43,856	39,001
		43,862	39,007
Current assets			
Trade and other receivables	10	2	5
Cash and cash equivalents	7	3,411	3,448
Cash held in the endowment fund	9	0	0
		3,413	3,453
Total assets		47,275	42,460
Current liabilities			
Administrative liabilities	11	(146)	(318)
Grant commitments due within one year	12	(8,771)	(13,746)
Non-current assets plus net current assets		38,358	28,396
Non-current liabilities			
Grant commitments due after one year	12	0	0
Assets less liabilities		38,358	28,396
Taxpayers' equity			
Fair value reserve	16	15,975	9,845
Income and expenditure account		22,383	18,551
		38,358	28,396

This statement excludes balances relating to the Lottery distribution activities of NHMF, which are separately disclosed in the accounts of HLF. The notes on pages 48 to 55 form part of these accounts.

Sir Peter Luff
Chair

3 July 2017

Ros Kerslake OBE
Chief Executive and Accounting Officer

Statement of cash flows

for the year ended 31 March 2017

	Notes	2016-17 £'000	2015-16 £'000
Operating activities			
Cash from sundry operating income	3	0	421
Cash paid to and on behalf of employees		(326)	(336)
Interest received	6	26	37
Cash paid to suppliers		(837)	(716)
Cash paid to grant recipients	12	(36,069)	(18,007)
Net cash outflow from operating activities	14a	(37,206)	(18,601)
Investing activities			
Capital expenditure and financial investment	14b	(2)	(3)
Endowment fund net cash receipts	14b	1,921	24
Net cash inflow from returns on investments		1,919	21
Cash flow before financing		(35,287)	(18,580)
Financing activities			
Grant-in-aid received	14c	35,250	21,541
(Decrease)/increase in cash and cash equivalents		(37)	2,961

The notes on pages 48 to 55 form part of these accounts.

Reconciliation of net cash flow to movement in net funds

for the year ended 31 March 2017

	2016-17 £'000	2015-16 £'000
(Decrease)/increase in operating cash in the period	(37)	2,961
Cash used to increase liquid resources	0	0
Changes in cash and cash equivalents	(37)	2,961
Cash and cash equivalents at 1 April 2016	3,448	487
Cash and cash equivalents at 31 March 2017	3,411	3,448

The notes on pages 48 to 55 form part of these accounts.

Notes to the accounts

for the year ended 31 March 2017

I. 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 culture secretary and approved by HM Treasury. They are prepared under the modified historic cost convention. Without limiting the information given, the accounts meet the accounting and disclosure requirements contained in the Companies Act 2006 and the FREM, so far as those requirements are appropriate, and accounts' direction issued by the culture secretary in October 2002. The accounting policies contained in the FREM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. The National Lottery accounts' direction issued by the culture secretary specifically excludes the preparation of consolidated accounts.

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

b) Government grants

Our grant-in-aid from DCMS is not treated as income. Instead it is treated as financing because it is regarded as a contribution from a controlling party that gives rise to a financial interest. This is done by making an adjustment to the accumulated fund. No allocation is made between grants for revenue and capital purposes.

The amount of grant-in-aid recognised in these accounts reflects the amounts actually drawn down from DCMS during the financial year.

c) Non-current assets

Non-current assets are defined as those items purchased for the long-term use of NHMF and its Lottery distribution activities where the total cost is above £2,000. Depreciation is provided on a straight-line basis on all non-current assets, including those held under 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 begins in the month after the asset is put into operation.

d) Investments

Non-current financial assets – our investments – are included in the accounts at market value. Realised gains and losses are included in the statement of comprehensive net expenditure and are calculated as the difference between sales proceeds and historic cost. Unrealised gains and losses on these investments are reflected in the fair value reserve, which is disclosed in the statement of financial position and the statement of changes in equity.

e) 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.

f) Pension

The regular cost of providing benefits is charged to the statement of comprehensive net expenditure over the service lives of the members of the scheme on the basis of a constant percentage of pensionable pay. Almost all of our staff are members of PCSPS or alpha and the percentage of pensionable pay is notified by the Cabinet Office prior to the start of each financial year. See the remuneration and staff report for further details.

g) 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.

h) Grant decisions

Positive decisions by trustees are recognised in the statement of comprehensive net expenditure at the time of award. De-commitments occur when an award or part award is not taken up by a grantee.

i) Allocation of costs and segmental reporting

IFRS 8 requires information to be provided on segmental reporting where this is relevant to the activities of the organisation. Where relevant, senior management would identify separate streams of activity and assign operating costs to them pro rata based upon the level of grant awarded unless there was a significant difference in the manner in which applications were processed; in these cases ad hoc methods would be used. NHMF accounts separately for its Lottery distribution activities, which it is required to do under its Lottery accounts' direction. In addition note 19 on page 55 separates our income and expenditure between our standard NHMF activity and LPOW. The funds available under LPOW are much larger than for our standard grants and we believe their inclusion makes comparison with prior years difficult.

NHMF incurs indirect costs that are shared between activities funded by grant-in-aid and activities funded by the National Lottery. NHMF is required to apportion these indirect costs in accordance with *Managing Public Money*. This cost apportionment seeks to reflect the specific proportion of time and expenses committed to each activity. At the end of the financial year the proportion of joint costs apportioned to our Lottery distribution activities was 99% (2015–16: 99%).

j) Loans

Trustees are entitled to make loans to heritage bodies under the National Heritage Act 1980. Interest rates and repayment terms are at the discretion of trustees.

2. Grant-in-aid

	2016–17 £'000	2015–16 £'000
Grant from DCMS	35,250	21,541

The large increase in grant-in-aid reflects the impact of LPOW. £30.3million of grant-in-aid was drawn down to fund grant payments and administrative costs for the scheme. The remaining £5million represented our standard grant-in-aid.

3. Sundry operating income

This comprises:

	2016–17 £'000	2015–16 £'000
Repayments of grant	0	420
Donations and bequests	0	1
	0	421

4. Operating deficit

The operating deficit is stated after charging the following:

	2016–17 £'000	2015–16 £'000
Auditor's remuneration	16	16
Payments under operating leases		
– leasehold premises	6	6
– hire of plant and machinery	0	0

There were no non-audit fees paid to the external auditors. Additional costs of £9,575,000 have been allocated to NHMF's Lottery distribution accounts. As disclosed in note 1 on page 48, NHMF is required to apportion its costs to its Lottery distribution activities. At the end of the financial year the proportion of joint costs apportioned was 99%.

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

	2016–17 £'000	2015–16 £'000
Accommodation	11	10
Postage and telephone	3	3
Office supplies, print and stationery	5	6
Travel, subsistence and hospitality	28	26
Professional fees		
– grant-related	6	7
– non-grant-related	189	267
Communications	13	27
Sundry expenses	4	3
Office equipment	63	208
LPOW overhead allocation	326	251
	648	808

The LPOW overhead allocation represents costs originally charged to our Lottery distribution activities that were regarded as being indirect LPOW costs. Direct LPOW costs (staff working for the LPOW team and external costs incurred running the programme) were charged directly to LPOW. Indirect costs represent a share of senior management and support department time normally allocated to our Lottery distribution activities.

5. Profit on the sale of investments

	2016–17 £'000	2015–16 £'000
Long-term financial assets available for sale	646	6

Profits are earned on the disposal of investments held in the endowment fund when NHMF requires funds to pay grants or the administration costs of our investment managers.

6. Interest received

	2016-17 £'000	2015-16 £'000
Bank interest received		
– Barclays Bank	7	12
– Lloyds Bank	11	0
– Schrodgers	8	25
	26	37

During the year, we switched our main banking from Barclays to Lloyds.

7. Cash and cash equivalents

	2016-17 £'000	2015-16 £'000
Instant access		
– Barclays Bank	0	3,447
– Lloyds Bank	3,411	0
– Schrodgers	0	1
Seven-day notice		
– Schrodgers	0	0
	3,411	3,448

Cash is held in Lloyds to support our day-to-day activities. Funds not required for immediate use were placed with our investment managers as they had access to better interest rates than we can source directly. Schrodgers placed the money on deposit with other financial institutions. When we switched banking from Barclays to Lloyds during 2016-17 we were able to source higher interest rates than available from Schrodgers hence all our funds are currently in our Lloyds accounts.

9. Long-term financial assets available for sale

NHMF was set up in 1980 as successor to the National Land Fund. Trustees believed that of the initial grant-in-aid that established NHMF the sum of £10million should be regarded as the residue of the National Land Fund and was to be treated as an endowment fund. They decided to invest it with the aim to maintain its capital value in real terms when compared to the Retail Prices Index. Beyond that, the investment aim is to achieve sufficient growth in real terms to enable NHMF to meet its obligations. To this end, investment in readily marketable financial assets can be made outside the UK. The table on analysis of investments at the year end on page 51 summarises the spread of investments by type and region. The aim is that the surplus value of the endowment fund, ie the excess over the current value of the initial £10million, can be drawn down to fund NHMF's grant giving. On occasions trustees have drawn down funds that take the value of the endowment fund below its target value. Trustees do this reluctantly and only when faced with the possibility of losing a significant part of the UK's heritage. In these circumstances trustees monitor the shortfall and use future grant-in-aid to replenish the endowment fund if capital growth does not exceed the increase in the Retail Prices Index.

At 31 March 2017, the original £10million investment would be worth £40.7million taking into account indexation. The actual market value is £43.9million including cash held within the endowment.

8. Property, plant and equipment

	Short-leasehold property		IT and other equipment		Office fittings		Total	
	2016-17 £'000	2015-16 £'000	2016-17 £'000	2015-16 £'000	2016-17 £'000	2015-16 £'000	2016-17 £'000	2015-16 £'000
Cost at start of year	3	3	18	15	1	1	22	19
Additions	0	0	2	3	0	0	2	3
Disposals	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
At end of year	3	3	20	18	1	1	24	22
Depreciation at start of year	2	1	13	11	1	1	16	13
Charge for the year	0	1	2	2	0	0	2	3
Adjustment on disposal	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
At end of year	2	2	15	13	1	1	18	16
Net book value								
At start of year	1	2	5	4	(0)	(0)	6	6
At end of year	1	1	5	5	0	0	6	6

Trustees have considered the current cost values of property, plant and equipment. A review of the current cost values at 31 March 2017 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.

The endowment fund comprises the following:

	Market value 2016-17 £'000	Book cost 2016-17 £'000
Long-term financial assets	43,856	27,881
Cash	0	0
	43,856	27,881

The proportion of this fund held in cash is disclosed in these accounts as a current asset as part of the cash balances.

The endowment fund is invested in the Charity Multi-Asset Fund run by Cazenove Capital, a trading name of Schroders, which invests in a range of 28 unit and investment trusts across many asset types and geographic markets. Units in the Charity Multi-Asset Fund are sold to raise funds for grant payments and administrative expenses. This is the reason that the assets are described as 'available for sale'. Trustees have no plans to liquidate the entire endowment fund.

	2016-17 £'000	2015-16 £'000
Cost and net book value		
At start of year	29,156	29,174
Additions	0	0
Disposals	(1,275)	(18)
At end of year	27,881	29,156

Net book value		
Listed on the		
London Stock Exchange	0	0
Unlisted investments	27,881	29,156
	27,881	29,156

Cost	27,881	29,156
Market value	43,856	39,001
Unrealised gain	15,975	9,845

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

An analysis of investments at the year end was:

	2016-17 %	2015-16 %
Bonds	2	2
UK equity	35	34
Europe equity (excluding UK)	2	6
North America equity	7	4
Japan and other Asian equity	4	7
Emerging market equity	5	4
Global equity funds	11	6
Property	9	11
Absolute return/hedge	17	16
Infrastructure	3	3
Cash	2	5
Commodities	3	2
	100	100

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

10. Trade and other receivables – all due within one year

	2016-17 £'000	2015-16 £'000
Repayment of grant	0	0
Prepayments and accrued income	2	5
	2	5

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

11. Payables: amounts falling due within one year

	2016-17 £'000	2015-16 £'000
Operating payables	40	162
Other payables including		
taxation and social security	63	29
Accruals and deferred income	43	127
	146	318

None of the liabilities of NHMF was secured. Of the above amounts for operating and other payables, £63,000 was payable to central government bodies (2015-16: £29,000).

12. Grant commitments

	2016-17 £'000	2015-16 £'000
At start of year	13,746	28,731
Grants paid in the year	(36,069)	(18,007)
Standard commitments		
created in the year	8,827	4,623
LPOW commitments		
created in the year	23,685	2,122
De-commitments	(1,418)	(3,723)
At end of year	8,771	13,746

The balance at the year end represents amounts due in the following periods:

	2016-17 £'000	2015-16 £'000
In one year	8,771	13,746
In two to five years	0	0
	8,771	13,746

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

	2016-17 £'000	2015-16 £'000
Balances owing to		
– central government	757	342
– local authorities	0	345
– other bodies	8,014	13,059
	8,771	13,746

13. Commitments

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

	2016-17 £'000	2015-16 £'000
Short-leasehold property		
– not later than one year	9	9
– later than one year but not later than five years	34	34
– later than five years	21	29
	64	72

In addition, short leasehold property lease commitments of £7,570,000 (2015-16: £8,981,000) have been allocated to NHMF's Lottery distribution activities and are disclosed in those accounts.

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 net cash outflow from operating activities:

	2016-17 £'000	2015-16 £'000
Operating deficit	(32,090)	(3,681)
Interest receivable	26	37
Add back non-cash items		
– depreciation	2	3
– movement in provisions	0	0
– decrease in grant commitment reserve	(4,975)	(14,985)
Increase/(decrease) in receivables (excluding capital and investments)	3	(2)
(Decrease)/increase in non-capital payables	(172)	27
Net cash outflow from operating activities	(37,206)	(18,601)

b) Capital expenditure and financial investment

	2016-17 £'000	2015-16 £'000
Payments to acquire		
– property, plant and equipment	(2)	(3)
– intangible fixed assets	(0)	(0)
– long-term financial assets available for sale	(0)	(0)
Receipts from sales of		
– property, plant and equipment	0	0
– long-term financial assets available for sale	1,921	24
	1,919	21

c) Analysis of changes in net funds

	At 1 April 2016 £'000	Operating cash flows £'000	Grant-in-aid £'000	At 31 March 2017 £'000
Cash at bank	3,448	(35,287)	35,250	3,411

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 four entities for which DCMS is regarded as the sponsor department – the Big Lottery Fund, Sport England, Arts Council England and Historic England. Further details of these transactions and balances can be found in the accounts of the Lottery distribution activities of NHMF.

In May 2011, the Committee on Climate Change signed an underlease for most of the first floor of NHMF's offices, at 7 Holbein Place, London. In August 2016 the area occupied by the Committee for Climate Change was reduced by about a half with a commensurate reduction in rent and contribution to service charges. The Committee for Climate Change is a non-departmental public body, which is jointly-sponsored by the DECC, DEFRA, the Scottish government, the National Assembly for Wales and the Northern Ireland Executive.

This underlease is for approximately 13 years and will result in rental payments to NHMF totalling £1.4million. In addition, the Committee for Climate Change will make contributions towards the cost of running Holbein Place of approximately £37,000 per annum at 2016-17 price levels. At 31 March 2017 the Committee for Climate Change owed us around £3,000 for rent, most of which is reflected in the accounts of NHMF's Lottery distribution activities.

Trustees and panel members are required to declare any connection with applicants at the start of each meeting and absent themselves from the part of the decision 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 the grant. There are strict rules on the circumstances in which trustees and panel members can accept paid work from a grantee. Therefore trustees are satisfied that in no case did the individuals have an influence on the decision-making process.

One trustee had a connection with an NHMF grant awarded in 2016-17. Details of interests in Lottery grants are set out in the accounts of the Lottery distribution activities of NHMF.

Amgueddfa Cymru – National Museum Wales

A grant of £341,000: a pair of Charles II silver andirons.

Baroness Kay Andrews OBE declared a conflict of interest as she was a trustee of the applicant organisation.

In addition three members of the NHMF panel, which advises trustees on the merit of grant-in-aid applications received, had interests in four awards that the Fund made in 2016–17.

The Fitzwilliam Museum

A grant of £700,000: a pair of Castle Howard cabinets.

Tim Knox declared a conflict of interest as he was the director of the applicant organisation.

Victoria and Albert Museum

A grant of £500,000: *Nonsuch Palace* by Joris Hoefnagel.

Brian Allen declared a conflict of interest as he acted as the agent for the Yale Center for British Art in both the purchase and the export licence application.

National Portrait Gallery

A grant of £180,000: portrait of Arthur Wellesley.

Brian Allen declared a conflict of interest as he was a trustee of the applicant organisation.

The Wentworth Woodhouse Preservation Trust

A grant of £3,575,000: Wentworth Woodhouse.

Merlin Waterson CBE declared a conflict of interest as he was a trustee of the applicant organisation.

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

In 2016–17 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.

16. Fair value reserve

	2016–17 £'000	2015–16 £'000
At start of year	9,845	10,690
Movement in the year	6,130	(845)
At end of year	15,975	9,845

The reserve relates to the difference between book cost and market value of long-term financial assets available for sale (see note 9 on page 50). The difference between book and market value of property, plant and equipment (see note 8 on page 50) is not material.

17. Financial instruments

IFRS 7, *Financial Instruments: Disclosures*, requires disclosure of the role that financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Financial instruments play a much more limited role in creating or changing risk for NHMF than is typical of the listed companies to which IFRS 7 mainly applies. NHMF

does not have powers to borrow but can invest grant-in-aid derived funds. With the exception of the endowment fund, financial assets and liabilities are generated by day-to-day operational activities rather than being held to change the risks facing the organisation.

Liquidity risk

NHMF received £35.3million as grant-in-aid during 2016–17 and has received a further £5.1million in April 2017. In addition under the terms of our agreement to run LPOW on behalf of DCMS we are due to receive further sums in 2017–18 that will be sufficient to cover all our liabilities under the scheme. Furthermore, trustees maintain an endowment fund and its underlying investment in Cazenove's Charity Multi-Asset Fund is widely traded. Trustees are able to liquidate assets on a daily basis should the need arise to fund grant payments. Therefore trustees are satisfied that they have sufficient liquid resources, in the form of their cash balances (worth £3,411,000 at the date of the statement of financial position) and the endowment fund (worth £43.9million at the date of the statement of financial position), to cover all outstanding grant awards of £8.8million and administrative liabilities of £146,000. The endowment is invested in a fund that is mostly invested in unit trusts, which are readily marketable; the prices are quoted daily in the Financial Times. NHMF monitors its cash balances on a daily basis and keeps in regular contact with grantees to ascertain their likely cash drawdown requirements. Trustees consider that the Fund is not exposed to significant liquidity risks.

Market and interest rate risk

Cash balances were held in a variety of bank accounts, some fixed rate and some variable rate. As mentioned on page 50 we transferred our banking from Barclays to Lloyds in 2016–17. Our account with Barclays, which was a variable rate account, attracted an interest rate of 0.1%. Our account with Lloyds, which was also a variable rate account, carried an interest rate of 0.45%. These accounts were used to make grant payments and fund our administration. At the start of the year larger sums of money were held in a short-term variable rate account, paying 0.5%, arranged via Schroders. However, all such sums are now held in our accounts with Lloyds, which provides more attractive rates. The sharp decline in market interest rates that occurred during 2008–09, as well as the further cut in 2016–17, has had an ongoing impact on returns, but as there is little room for rates to fall further the risk is small. The year-end cash balances, held by the Fund in the bank and via their endowment fund investment managers, were £3,411,000 and were held as disclosed in the table on page 54. Other financial assets and NHMF's financial liabilities carried nil rates of interest.

Notes to the accounts

for the year ended 31 March 2017

Schroders managed NHMF's endowment under the trading name of Cazenove Capital Management and invested it in a wide range of assets, from marketable shares to cash. At the year end, the market value of the endowment, excluding its cash element, was £43.9million. Returns are dependent upon global stock, commodity markets and performance of companies included within the portfolio. In the year, the return on the endowment was a rise of 17.5%. Trustees kept the performance of investments under review through their Finance, Staffing and Resources Committee and its Investment Panel, which includes three independent members with extensive experience in financial markets.

As the balance of cash and investments within the endowment fund significantly exceeds the current value of existing liabilities and because NHMF has been informed of the level of its grant-in-aid over the next few years, no detailed sensitivity analysis has been carried out. Should the value of its endowment fund significantly decline in the long term, trustees would seek an increase in their grant-in-aid while reducing their future grant award budgets. Should this request be turned down by the culture secretary, trustees will review their long-term grant award strategy.

	2016-17 £'000	2015-16 £'000
Cash balances		
– sterling at floating interest rates	3,411	3,448
– sterling at a mixture of fixed and floating rates	0	0
– sterling at fixed rates	0	0
	3,411	3,448

Credit risk

NHMF's receivables mostly comprise prepayments for rent and other services that we are currently receiving. It is not, therefore, exposed to significant credit risk.

Foreign currency risks

The endowment fund is invested in Cazenove's Charity Multi-Asset Fund, which is denominated in sterling. The fund invests in a large number of unit trusts and similar products, many of which include investment in assets denominated in other currencies. It is not possible to be precise about the proportion of the investments denominated in foreign currencies, but it is around 28%. The fund mitigates its exposure to foreign exchange risks by investing in a global spread of equities, bonds and commodities and, therefore, currencies. The trustees' Investment Panel monitors the investment of our endowment fund, including the exposure to foreign currencies within the Fund. All other assets of NHMF are denominated in sterling.

Financial assets by category

	2016-17 £'000	2015-16 £'000
Assets per the statement of financial position		
– non-current assets	43,856	39,001
– cash and cash equivalents	3,411	3,448
– loans and receivables	2	5
	47,269	42,454

Financial liabilities by category

	2016-17 £'000	2015-16 £'000
Liabilities per the statement of financial position		
– other financial liabilities		
• grant commitments	8,771	13,746
• operating payables	40	162
• other payables	63	29
• accruals	43	127
	8,917	14,064

Fair values

Set out below is a comparison, by category, of book values and fair values of NHMF's financial assets and liabilities as at 31 March 2017.

Financial assets at 31 March 2017

	Book value £'000	Fair value £'000
Cash ¹	3,411	3,411
Investments ²	27,881	43,856
Receivables ³	2	2
	31,294	47,269

Financial assets at 31 March 2016

	Book value £'000	Fair value £'000
Cash	3,448	3,448
Investments	29,156	39,001
Receivables	5	5
	32,609	42,454

Financial liabilities at 31 March 2017

	Book value £'000	Fair value £'000
Grant payables ⁴	8,771	8,771
Operating payables ⁵	40	40
Other payables ⁵	63	63
Accruals ⁵	43	43
	8,917	8,917

Financial liabilities at 31 March 2016

	Book value £'000	Fair value £'000
Grant payables	13,746	13,746
Operating payables	162	162
Other payables	29	29
Accruals	127	127
	14,064	14,064

Basis of fair valuation:

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

Maturity of financial liabilities

	2016–17 £'000	2015–16 £'000
In less than one year	8,917	14,064
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
	8,917	14,064

18. Statement of losses

NHMF made no losses during the year (2015–16: £0).

19. Segmental reporting

Our statement of comprehensive net expenditure for 2016–17 split between our two functions is as follows. We believe that the operation of LPOW distorts our reporting and so we have broken down the income and expenditure between our two activities – see note 1i on page 49 for further information.

	Standard £'000	LPOW £'000	Combined £'000
Sundry operating income	0	0	0
Awards made in the year	(8,827)	(23,685)	(32,512)
De-committed awards	614	804	1,418
Staff costs	(59)	(287)	(346)
Depreciation	(2)	0	(2)
Other operating charges	(121)	(527)	(648)
Operating expenditure	(8,395)	(23,695)	(32,090)
Operating deficit	(8,395)	(23,695)	(32,090)
Profit on sale of investments	646	0	646
Interest receivable	26	0	26
Comprehensive net expenditure transferred to the accumulated fund	(7,723)	(23,695)	(31,418)
Net gain on revaluation of available for sale financial assets	6,130	0	6,130
Total comprehensive expenditure for the year to 31 March 2017	(1,593)	(23,695)	(25,288)

In addition to these notes, the accounting officer confirms that the annual report and accounts as a whole is fair, balanced and understandable and that she takes personal responsibility for the annual report and accounts and the judgements required for determining that it is fair, balanced and reasonable.

20. Events after the reporting period

There were no events that occurred after 31 March 2017 up until the date the accounting officer signed these accounts that need to be disclosed. The financial statements were authorised for issue on 3 July 2017 by the trustees and accounting officer on the date they were certified by the comptroller and auditor general.

21. Staff costs

	2016–17 £'000	2015–16 £'000
Salaries	277	214
Employer's NI payments	14	10
Payments to pension scheme	53	44
Temporary staff costs	2	1
	346	269

Disclosure of investments

The investment of the endowment fund

Trustees regard a £10million lump sum given to the NHMF in 1980 as an endowment to be occasionally used alongside its grant-in-aid to help support the UK's heritage. The endowment fund is invested in order to maximise the return over the long term. Investment management is outsourced to specialist fund managers following a tendering exercise. NHMF has been using Schroders since 2010 and the entire endowment fund is invested in Schroders' Charity Multi-Asset Fund. The fund is a common investment fund established and approved by the Charity Commission. During 2014–15 Schroders merged with Cazenove Capital Management and now use the latter name for its charity investment management business.

Investment policy is the responsibility of the Investment Panel – a sub-committee of the Board's Finance, Staffing and Resources Committee. The panel

comprises two trustees and three independent financial experts who meet with Cazenove twice a year to discuss its performance.

The Board recognises that there can be public interest in disclosure of the investments being made and sets out details of them below. The Charity Multi-Asset Fund invests in a large number of investment trusts and other types of investment, most of which regularly buy and sell assets. The information was correct at 31 March 2017 and will be updated annually.

Cazenove has its own responsible investment policy that it adopts when making investments. It considers environmental, social and governance issues and produces an annual responsible investment report detailing its activities. Cazenove complies with the United Nations' Principles for Responsible Investment. We require Cazenove to notify us if it is considering investing in any organisation that could lead to embarrassment to NHMF.

Charity Multi-Asset Fund investment selection

UK equities	35.0%
Schroder Charity Equity Fund	8.1%
Schroder Equity Income Trust for Charities	4.2%
Old Mutual UK Alpha Fund	6.2%
Artemis UK Special Situations Fund	3.8%
Majedie UK Equity Fund	6.1%
Troy Trojan Income Fund	4.6%
Aberdeen UK All Share Tracker	2.0%
Global equities	10.7%
Schroder QEP Global Core	10.7%
European equities	2.0%
Jupiter European Special Situations Fund	1.0%
Argonaut European Alpha Fund	1.0%
US equities	6.9%
Vanguard S&P 500 ETF	6.9%
Asian equities	2.0%
Schroder Asian Alpha Plus Fund	2.0%
Japanese equities	2.4%
Schroder Tokyo Fund	2.4%
Emerging market equities	5.4%
Schroder Global Emerging Markets Fund	5.4%
Equities	64.4%

Absolute return*	16.2%
Schroder ISF Emerging Market Debt Absolute Return (£)	2.7%
Ruffer Total Return Fund	3.6%
Troy Trojan Fund	4.0%
Henderson UK Absolute Return Fund	2.6%
Majedie Tortoise Fund	3.3%
Property	9.2%
Property Income Trust for Charities	3.7%
Henderson UK Property Fund	2.9%
Ground Rents Income Fund	2.6%
Infrastructure	3.1%
3i Infrastructure	0.9%
HICL Infrastructure	1.0%
International Public Partnerships	1.2%
Commodities	3.1%
Schroder Commodity Fund (£)	1.3%
Gold ETF (£)	1.8%
Alternatives	31.6%
Bonds	1.5%
AXA US Short Duration High Yield Fund	1.5%
Cash	2.5%
Cash	2.5%
Bonds and cash	4.0%

Source: Cazenove 31 March 2017

* Absolute return funds – unlike traditional asset managers, who try to track and outperform a benchmark (a reference index such as the FTSE100), these managers employ different strategies in order to produce a positive return regardless of the direction and the fluctuations of capital markets. These funds are sometimes referred to as hedge funds.

Chair, trustees and management

Chair and trustees of NHMF

Chair

Sir Peter Luff

Trustees

Baroness Kay Andrews OBE

Anna Carragher

Sir Neil Cossons OBE

Sandie Dawe CBE

Dr Angela Dean

Jim Dixon

David Heathcoat-Amory

Perdita Hunt DL, OBE

Steve Miller

Richard Morris OBE

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Dame Seona Reid DBE

Dr Tom Tew

Directors

Chief Executive and Accounting Officer

Ros Kerslake OBE

Louise Lane

Judith Cligman

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Acknowledgements

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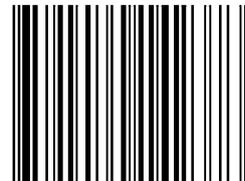
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ISBN 978-1-4741-4237-3



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