



Heritage Lottery Fund

National Heritage Memorial Fund Lottery Distribution
Annual Report and Accounts for the year ended 31 March 2017

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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 Lottery 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 commitment of the teams who work on the Lottery Fund side of our business alongside the leadership of the Board of Trustees ('the Board') and Management Board.

Having undertaken a review of our current strategic framework (SF4) in 2015–16 the Board committed to some new programmes in 2016–17:

- Resilient Heritage was successfully introduced in July 2016 and we expect to see growing demand for it over the next few years;
- Skills for the Future was successfully reintroduced in 2016–17 attracting high quality applications from across the country and from a wide range of consortia and;
- Kick the Dust, a new heritage programme for young people; we expect to make our first awards early in 2017–18.

Building on the Culture White Paper and working collaboratively with Arts Council England we launched the Great Place programme, making awards totalling £20million in February 2017 across a range of towns, cities and rural areas in England (of which our share was £10million). We have recently extended this pilot scheme across Northern Ireland, Scotland and Wales.

As part of the work on the Culture White Paper we also worked with Nesta to support research into how crowdfunding may be used to support and invest in heritage projects.

In our Lottery work we continue to see an exceptionally high number and quality of applications and we have had another year with a record number of projects in delivery.

While we have deployed additional resources we recognise the risks of additional workloads on both applicants/grantees and the Fund itself. In light of this, starting in July 2016 we commissioned a business process review to address the implication of these work volumes and emerging policy changes. Progress has been good to date and we have already taken the opportunity to improve our processes and services for applicants/grantees but we recognise there is more to do.

We have worked collaboratively with stakeholders on the English Churches and Cathedrals Sustainability Review ('Churches Review') and the Review of Museums in England ('Museums Review') and we look forward to seeing the conclusions of them and working to implement their recommendations.

In February the Department for Culture, Media and Sport (DCMS) announced our tailored review, to which we have made a promising start and we look forward to working with the department and all our stakeholders in the forthcoming months on this important piece of work.

Finally, let me thank our staff who work on Lottery grants. They work with great integrity and professionalism, are truly committed to the work of the Heritage Lottery Fund (HLF) and provide an exceptional service to the nation's communities and heritage, which too often is not fully recognised.

Our purpose and activities

The National Heritage Memorial Fund (NHMF or 'the Fund') is vested in, and administered by, a body corporate known as the Trustees of the National Heritage Memorial Fund. This consists of a chair and not more than 14 other members appointed by the prime minister. The Fund was set up on 1 April 1980 by the National Heritage Act 1980 ('the 1980 Act') in succession to the National Land Fund as a memorial to those who have given their lives for the United Kingdom (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 ('the 1998 Act').

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

Under section 21(1) of the 1993 Act a fund known as the National Lottery Distribution Fund (NLDF) is maintained under the control and management of the secretary of state for culture, media and sport ('the culture secretary'). All sums received from the licensee of the National Lottery under section 5(6) are paid to the culture secretary and placed by him or her into the NLDF. NHMF applies to the NLDF for funds to meet its liabilities for Lottery grant payments and administration expenses.

Under section 22 of the 1993 Act the culture secretary shall allocate 20% of the sum paid into the NLDF for expenditure on, or connected with, the national heritage. Section 23(3) establishes the trustees of NHMF as distributors of that portion. The percentage allocation was reduced to 16 $\frac{2}{3}$ % in October 1997 following the government's creation of the New Opportunities Fund. It reverted to 20% from 1 April 2012, having been 18% for the whole of 2011–12.

These accounts have been prepared in a form directed by the culture secretary with the consent of HM Treasury in accordance with section 35(3) of the 1993 Act.

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

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

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

Under the 1997 Act trustees are now also able to assist projects directed to increasing public understanding and enjoyment of the heritage and to interpreting and recording important aspects of the nation's history, natural history and landscape. The 1998 Act gave trustees the power to make revenue grants to broaden access to heritage and to delegate Lottery grant decisions to staff and also to committees containing some members who are not trustees.

Using money raised by National Lottery players HLF aims to give grants to sustain and transform our heritage, making a lasting difference for heritage, people and communities:

- over the last 22 years we have been trusted by the public, stakeholders and successive governments to distribute National Lottery money wisely, supporting successful heritage projects right across the UK;

- we are an expert grant maker, experienced in ensuring that our funding achieves great results. We are independent, considered and focused on quality;
- we have developed the relationships and skills to work with others to improve heritage and quality of life across the UK and;
- thanks to National Lottery players our investment has had an enormous impact on the nation's heritage, transforming it for people and communities. With around £300million to distribute next year HLF will be one of the most important sources of funding and will continue to make investments which unlock the huge potential of the UK's heritage.

Our key issues and risks

The Lottery Fund has faced a number of significant risks throughout the year and we have actively managed these to minimise the impact on applicants/grantees and other stakeholders as well as the organisation itself.

Trustees consider the risks faced by the organisation at Board meetings and through the Audit and Risk Committee. A register is created of the highest level risks, which is reviewed on a regular basis. Details are set out in the governance statement on page 16.

The main risks are the dangers to our Lottery investment from changes in the heritage sector in terms of funding, asset ownership and maintenance, organisational capacity and capability and changing business models. This is a complex and complicated risk across the various parts of the UK and manifestation of the risk varies in different ways and different timings across the UK. Our operational teams are alert to changes in existing and past projects and early identification and discussion with grant recipients is often key to finding a solution. While clawback of grants is usually our last resort we reserve the right to protect past investment and the funds from National Lottery players.

The ongoing impacts of devolutionary settlements across parts of the UK also present a risk to us in terms of funding, business and operating models. We continue to monitor developments closely and manage specific implications where these arise on a case by case basis while retaining the integrity of our central approach to grant giving.

The volume and variability of workloads also presents a risk to us. Understanding the trends and resource implications of these is a key piece of work for us. We have invested in understanding our costing, resourcing and efficiency in much more depth over the past two years and we have started to use that data in planning resource levels.

Our other main risk is related to our tailored review, the outcome of which was 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

The accounts have been prepared on a going concern basis as required by international accounting standards and because trustees have no reason to believe that the government has any plans to change the percentage of Lottery good causes money received by NHMF or to change distributors of money derived from the National Lottery.

Performance summary

We continue to perform despite the demands on our resources and the record level of delivery. The details set out on page five and in the section of this report on key performance indicators on page nine demonstrate that we have met or bettered the substantial majority of our performance measures in 2016–17.

Details of our performance against our service level targets is set out on page five:

Service level target performance for the year to 31 March 2017

	Year to end March 2017	Year to end March 2016
1 Decisions will be placed on HLF's website within 20 working days of the meeting.	100%	100%
2 Grant payments will be made to the applicant, on average, within nine working days from receipt of the payment request.	84% (average 7 days)	83% (average 6 days)
3 Time taken to process applications:		
Heritage Grants round 1: 12 weeks + time to next meeting	99% (average 14 weeks)	97% (average 15.3 weeks)
Heritage Grants round 2: 12 weeks + time to next meeting	94% (average 14.4 weeks)	93% (average 15.9 weeks)
Heritage Grants major batch round 2: 12 weeks + time to next meeting	89% (average 14.7 weeks)	100% (average 13.8 weeks)
Heritage Enterprise round 1: 12 weeks + time to next meeting	100% (average 13.8 weeks)	94% (average 14.2 weeks)
Heritage Enterprise round 2: 12 weeks + time to next meeting	91% (average 14.8 weeks)	100% (average 14.8 weeks)
Landscape Partnerships round 2: 16 weeks + time to next meeting	100% (average 15.9 weeks)	100% (average 16 weeks)
Grants for Places of Worship round 1: 12 weeks + time to next meeting	98% (average 15.9 weeks)	99% (average 15 weeks)
Grants for Places of Worship round 2: 12 weeks + time to next meeting	96% (average 10.8 weeks)	98% (average 11 weeks)
Townscape Heritage round 2: 12 weeks + time to next meeting	100% (average 15.2 weeks)	85% (average 19 weeks)
First World War: Then and Now: 8 weeks + time to next meeting	99% (average 7.1 weeks)	96% (average 7.2 weeks)
Our Heritage: 8 weeks + time to next meeting	98% (average 7.1 weeks)	96% (average 7.1 weeks)
Sharing Heritage: 8 weeks + time to next meeting	99% (average 7.3 weeks)	96% (average 7.2 weeks)
Young Roots: 8 weeks + time to next meeting	99% (average 8.7 weeks)	95% (average 7.2 weeks)
4 We will undertake a survey of successful and unsuccessful applicants and aim to maintain customer satisfaction with our assessment processes at no less than 80%.	81.7%	79.1%
5 We will undertake a similar survey of those to whom we have awarded grants and aim to maintain customer satisfaction with our monitoring and post-award processes at no less than 85%.	89.3%	89.6%
6 The proportion of applicants that find the HLF website easy to use will be at least 87%.	84% - see note 1 below	80%
7 We will actively promote a wide selection of our awards via the media to generate awareness among potential applicants and National Lottery players.	Met - see note 2 below	Met

Note: Many of our grant programmes operate a two-round process. An initial application, if successful, is awarded development funding and a round-one pass. The development funding allows the applicant time and money to work up a full application for funding at round two.

1 There has been a change in the methodology used to acquire this data. Consequently we have restated the comparative figure for 2015-16 (reduced from 86%).

2 Promoting awards is only part of the publicity undertaken by HLF; we also support grantees in delivering publicity about our awards. During 2016-17 we issued 24 national and 67 regional press releases that related specifically to new awards across the UK. We also contributed to 392 news releases about grant awards issued by grant recipients. Many of these have also featured in news articles on the HLF website and associated social media to drive traffic. Grants news therefore features highly in the coverage we generate, which overall reaches an average of 191 million consumers per month.

Performance analysis

NHMF operates two funds: its original grant-in-aid fund, NHMF, and its National Lottery distribution activities, HLF. It is required, by the accounts' direction of the culture secretary, to account for these activities separately and so no consolidated accounts are prepared. This review discusses solely the activities of NHMF's National Lottery distribution activities.

NHMF receives Lottery applications from thousands of organisations across all communities of the UK and awards grants on the basis of its aims. Since the Lottery started in 1994 we have received almost 74,000 applications requesting over £17.6billion. During that time we have made almost 51,000 awards to a value of £7.7billion.

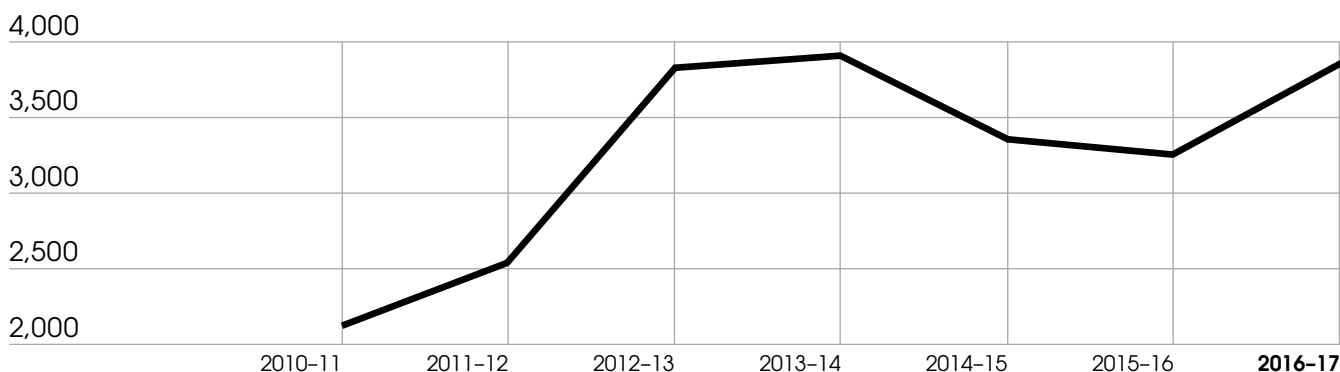
During 2016–17 we had over 3,700 grant applications, requesting £1.16billion. This was a significant rise of 16% over the previous year and is the highest level since 2013–14. The number of applications received in 2012–13 and 2013–14 were distorted by significant amounts of small value applications; we received over 1,000 applications to the All Our Stories programme in 2012–13 and over 500 applications to the First World War: Then and Now programme in 2013–14. Taking this into account it means that the number of applications to our standard grant programmes has risen substantially and these programmes require more assessment resources in terms of staff time and direct cost but also far more monitoring as the

projects take many years to complete. For example the number of applications to our Heritage Grants programme (including Heritage Enterprise and Heritage Endowments) was at the highest level since 2002–03.

The value of requests in 2016–17 was 3.5 times our income and 2.7 times our award budget. This means that unfortunately we had to disappoint many of our applicants. As our grant award budget has been adjusted to £300million in 2017–18 a similar level of application would mean that we were oversubscribed by almost four times.

2015–16 was a record year for Lottery ticket sales. However, sales fell 8.8% during 2016–17, contributing to our income falling from £388million to £327million this year. We continue to work with other National Lottery distributors, DCMS and the Gambling Commission to understand the causes of this with Camelot UK, the operator of the National Lottery, also carrying out a strategic view of its business. Whatever the reason the dip in returns to good causes seems set to continue in the medium term and we're planning on a similar level of income in the coming years. As a consequence grant award budgets have been reduced substantially. The budget for 2016–17, at £435million, was intentionally set higher than forecast income with the aim of reducing the balance of our funds at the NLDF, which has been achieved. At that time we envisaged that the budget for 2017–18 would drop back to around £375million.

Applications to HLF by year (number)



However, with the fall in income during the year, trustees decided that a budget of £300million was more sustainable.

Investment income dipped to £1.1million from £1.6million in the previous year. Continuing low gilt yields are the reason for the low investment income returns as the NLDF is invested in a narrow range of low-yield, low-risk investments. The cut in the Bank of England base rate in 2016–17 will have dampened yields further. Trustees have no influence over the investment policy, which is set by DCMS. We receive 20% of the investment returns at the NLDF irrespective of the balance of our funds. Thus the fact that our average balances at the NLDF fell in the year does not mean that our income should fall by a similar proportion.

The balance of our funds at the NLDF fell from £595million to £497million at the end of the financial year. While our level of grant awards significantly exceeded our income it is unlikely that much of the fall in the balance can be attributed to this; most of our projects take many years to pay out and the amount paid out in year one is usually relatively small. The main cause of the balance decline is that our grant payments for awards made in prior years were much higher than income and are at record levels. Despite this record, using our cash flow model, we continue to be able to set a

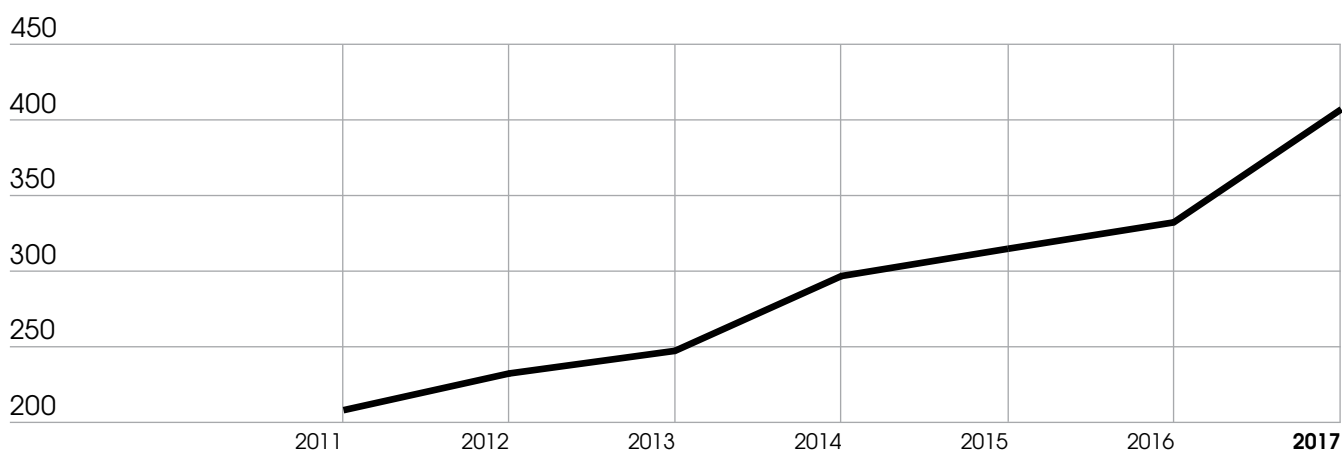
reasonable grant award budget while ensuring that we have sufficient cash to cover our long-term needs. Our average grant award budget over the period 1999–00 to 2016–17 was £316million so an annual budget of £300million going forward does not represent a cause for concern in the heritage sector.

The level of new grant liabilities created rose from £381million to £453million. The 2015–16 figure was unexpectedly low and we investigated whether there was any evidence of a slowdown in our applicants returning with their second round applications. We were unable to draw any conclusions from this research and the 2016–17 figures show that this was probably just a temporary blip.

Despite the high level of grant payments in the year the balance of grant liabilities rose from £996million to £1.02billion. This was simply because new awards exceeded grant payments.

The level of contingent liabilities, round one passes given to applicants where we await the second round decision, rose from £634million to £661million. This was not surprising given that our round one budget was so high this year. It can take between 18 months and two years for an applicant to return with their round two application.

Grant payments by year (£million)



Taking into account all the actual and contingent liabilities, at the end of the financial year we had committed over £1.19billion (at 31 March 2016: £1.03billion) more than we had in the NLDF. This level of liabilities and contingent liabilities means we are over-committed by the equivalent of 5.2 years' expected income (at 31 March 2016: 4.2). This demonstrates trustees' determination to try to keep the balance at the NLDF from growing. The balance of contractual liabilities significantly exceeded our net assets and there was a net deficit on the statement of financial position of £523million at 31 March 2017.

Trustees recognise that monitoring long-term cash flows is of great importance as the projects to which we give grants can take many years to complete. There is no guarantee to our funding from DCMS and no assurance as to the amount of funds the National Lottery will generate for us. Therefore trustees have devised guidance ratios concerning the level of outstanding commitments, cash and expected income. The sudden dip in income in 2016–17 brought these ratios to the forefront of our planning. They showed that our grant budget for 2016–17 was appropriate at expected income levels, but as actual income fell lower this triggered management action resulting in a lower grant budget for 2017–18 and plans for stricter control of grant increases and the like when the next strategic framework is in place.

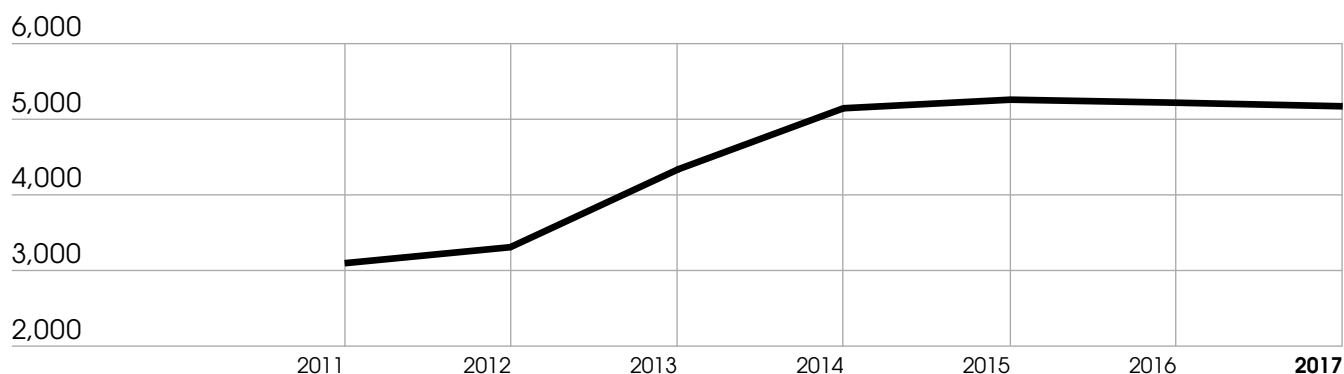
These ratios are:

Ratio	Target range	at 31 March 2017	at 31 March 2016
Total commitments to income	A maximum in the range 4.4:1 to 4.6:1	5.2:1	4.3:1
Net commitments to income (ie total commitments less cash)	A maximum in the range 3.0:1 to 3.2:1	3.7:1	2.8:1
Hard commitments to cash	A maximum in the range 2.3:1 to 2.5:1	2.1:1	1.7:1
Cash on hand	In the range £500million to £525million	£497million	£595million

Overall our operating costs rose by 11% during the year. The rise was planned and had been incorporated into our operating budget for 2016–17. The rise was inevitable given the huge increase in the numbers of awards and applications over recent years. We knew that in order to maintain our customer satisfaction statistics we would need more resources, hence the 11% rise in staff costs. The main overhead cost increase was our IT costs as we geared up for new grant programmes (initiated by the Culture White Paper and the Board's own mid-term review of changes to SF4) Kick the Dust, Great Place, Heritage Endowments and Resilient Heritage and the beginning of a long-term project of improving IT mobility thereby allowing for more effective working outside the office. Despite this rise in costs we believe that the organisation remains a highly efficient distributor of funds from the National Lottery. Evidence for this is shown in the chart below and by our meeting efficiency targets set by DCMS even with the sharp decline in income.

The number of projects under monitoring (those uncompleted projects that have received awards) has risen significantly in recent years. Ensuring that these projects progress successfully is a major task requiring significant resource in terms of staff and the appointment of mentors and monitors. This helps to explain the increase in our administration costs in recent years.

Projects under monitoring by year (number)



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

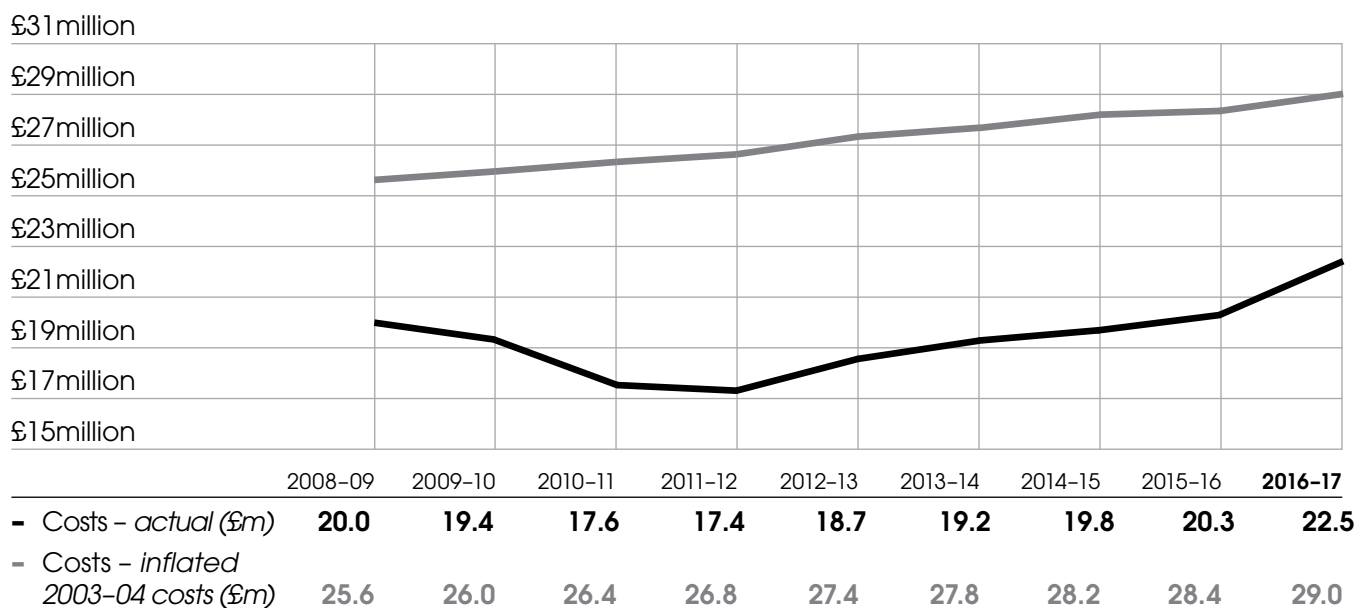
- 1 From the Big Lottery Fund towards the cost of running the Parks for People programme, to which it contributes some grant funding. Its contribution rose slightly from £302,000 to £314,000.
- 2 From the Committee on Climate Change towards the cost of its occupation of part of the first floor at our London office. The Committee on Climate Change has been accommodated since May 2011 and its contribution is in terms of rent and service charges. During 2016–17 the space it occupied was reduced and so the contribution fell. In 2016–17 it was charged £156,000 (2015–16: £234,000).
- 3 From Arts Council England towards the cost of setting up the Great Place programme in England to which it contributes 50% of the funding. In 2016–17 it was charged £100,000 (2015–16: £0).

Trustees recognise that being an efficient distributor of Lottery funding should not be achieved at the expense of service to our customers. They are pleased to report that despite the significant increase in applications and awards over recent years we continue to meet our service level targets for both applicants and grantees. Further information on our service level targets is available elsewhere in this annual report.

Key performance indicators

NHMF has a reputation as an efficient distributor of Lottery funds. The black line on the chart on page 10 sets out our operating costs in each of the past few years. The grey line shows the value of operating costs incurred in the year we created our current operating structure (2003–04) and increased in line with HM Treasury's gross domestic product (GDP) deflator, an estimate of the general level of inflation in the UK economy. While our costs have risen in 2016–17, trustees are pleased to note that this year's operating costs are £6.5million (or 22%) lower than inflation since 2003–04 would have suggested, representing a significant real-terms reduction in operating costs and releasing extra funds for grants. If the Retail Prices Index was used, rather than the GDP deflator, costs would be £10.2million (or 45%) higher than they were (using the Consumer Price Index our costs would be £7.6million higher).

Actual operating costs vs inflated 2003–04 costs by year



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

In 2016–17, we achieved the following:

	Target	Actual 2016-17	Actual 2015-16	Actual 2014-15	Actual 2013-14	Actual 2012-13	Actual 2011-12
Operating expenditure as a proportion of total income	8%	6.9%	5.2%	5.1%	5.7%	4.8%	5.7%
Processing expenditure as a proportion of total income	5%	4.8%	3.7%	3.7%	4.1%	3.8%	4.5%

Trustees are pleased to note that the targets continue to be met despite the increase in our cost base and the continuing high volume of grant applications and projects under monitoring.

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 below reports data on a full time equivalent basis (FTE), ie the level of consumption per member of staff. However, as we 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 all 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.

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 (million kWh)	0.7	1.1	1.1	0.9	1.1	1.3
– expenditure (£)	486,315	488,361	429,425	445,624	489,638	384,532
Estate waste – consumption (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)	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 – consumption (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)	13	16	19	22	15	23
– expenditure (£)	41	26	45	55	46	82

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 below, there is no reliable measure of the amount of waste we generate as it is simply taken away by councils and it would not be 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 11. 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 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 it removes. 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 Kerlake 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 Luff²

Trustees

Baroness Kay Andrews OBE *from 1 April 2016*

Anna Carragher *from 7 October 2016*

Sir Neil Cossons OBE

Sandie Dawe¹ CBE

Dr Angela Dean¹

Sir Roger De Haan CBE² *to 19 January 2017*

Jim Dixon¹

David Heathcoat-Amory¹ *to 19 January 2017*

Perdita Hunt² DL OBE

Steve Miller

Richard Morris OBE

Atul Patel²

Dame Seona Reid DBE

Dr Tom Tew

Chief Executive

Carole Souter CBE² *to 2 May 2016*

Colin Bailey² *interim from 3 May 2016 to 3 July 2016*

Ros Kerslake OBE² *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 26.

The gender split of our trustees as at 31 March 2017 was as follows:

	Male	Female	Total
Trustees	7	6	13

Register of Trustees' Interests

As a matter of policy and procedure the trustees and country and regional committee members 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 forecast for income in 2017–18 and beyond is around £325million. On this basis, and in line with the financial framework set by trustees in December 2014 with the particular aim of preventing our balance at the NLDF rising too high, the trustees have proposed a grant award budget of £300million in 2017–18 and future years. The significant drop in income in 2016–17 reminds us to be wary of income forecasts and management will monitor income on a monthly basis and recommend adjustments to grant budgets to trustees if there are any worrying trends.

2017–18 is past the midpoint of our 2013–19 strategic framework SF4 (the original 2013–18 framework was extended by one year) and our thoughts turn towards the following framework (SF5). At the same time as the planning work for the next framework we will be finalising a business process review to overhaul our methods of delivering the framework.

Within our current framework we set outcomes attached to the grant programmes as follows:

Heritage outcomes so that heritage would:

- be better managed*;
- be in better condition*;
- be better interpreted and explained and;
- be better identified and recorded.

Individual outcomes so that people would:

- learn about heritage**;

- develop skills*;
- change their attitudes and/or behaviour;
- have an enjoyable experience and;
- volunteer time.

Communities and society outcomes so that:

- environmental impacts would be reduced**;
- more people and a wider range of people would have engaged with heritage**;
- organisations would be more resilient;
- local economies would be boosted and;
- local areas and communities would be a better place to live, work and visit.

* These outcomes are weighted for grants over £100,000

** These outcomes are weighted for all grants

SF4 sets out the overall positioning, approach to funding and how we will deliver our strategy through policies, programmes and initiatives. Trustees remain satisfied with the robustness of this strategic approach and the delivery to date on the aims and objectives of the framework.

In the first two years of the framework we launched six new grant programmes:

- Sharing Heritage;
- Start-Up Grants;
- Transition Funding;
- First World War: Then and Now;
- Heritage Enterprise and;
- Grants for Places of Worship (GPOW).

During 2016–17 we added Resilient Heritage and Kick the Dust as well as a small pilot with Nesta to explore the potential of crowdfunding for diversifying funding in the cultural sector. We also undertook the Great Place programme, piloted initially in England; 2017–18 will see it expanded into Northern Ireland, Scotland and Wales. We recognise that creating new programmes incurs a cost and believe that we have maximised our portfolio so we have no plans for any new programmes until SF5 takes effect.

Appointment of auditors

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

Key stakeholders

We work with a wide range of key stakeholders and partners and consult them extensively when developing our strategic frameworks and grant-making policies and practice. Among them are the Lottery-playing public, applicants and grantees, strategic agencies and lead bodies for heritage and other policy areas relevant to our funding across the UK and elected members for both local and national governments. DCMS issues UK-wide policy directions (see pages 63 to 73) and controls the NLDF that invests the money received from the National Lottery. The Scottish government and the National Assembly for Wales have also issued policy directions.

Additionality

In accordance with the financial direction of the culture secretary all Lottery distributors are required to have regard to additionality principles. Our requirement for Lottery grants is that our funding should be in addition to available government funding not instead of it. Thus we will not give grants to projects where we believe that government funding was available at the time of decision. As part of our grant assessment we ask applicants to make a clear case for Lottery investment including telling us what other sources of funding have been considered.

Personal data

NHMF has had no incidents where personal data was inadvertently disclosed to a third party and has made no report to the information commissioner's office. NHMF will continue to monitor and assess its information risks in order to identify and address any weaknesses and ensure continuous improvement of its systems.

Statement of trustees' and accounting officer's responsibilities

Under section 7(3) of the National Lottery etc. Act 1993 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 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:

- 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;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards, as set out in the FREM, have been followed and disclose and explain any material departures in the financial statements and;
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Fund will continue in operation.

Following the retirement of Carole Souter CBE 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 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 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 have also delegated some of their tasks to the three committees shown in the table below – 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.

Governance structure



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

Trustee	Eligible meetings	Meetings attended
Sir Peter Luff	11	11
Baroness Kay Andrews OBE <i>from 1 April 2016</i>	11	10
Anna Carragher <i>from 7 October 2016</i>	6	6
Sir Neil Cossons OBE	11	10
Sandie Dawe CBE	11	9
Sir Roger De Haan CBE <i>to 19 January 2017</i>	9	8
Dr Angela Dean	11	11
Jim Dixon	11	9
David Heathcoat-Amory <i>to 19 January 2017</i>	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 programme decisions. 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 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.

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. The committee also reviewed and approved during the year:

- 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
Sir Peter Luff	3	2
Colin Bailey <i>as acting CEO</i>	1	1
Sir Roger De Haan CBE <i>to 19 January 2017</i>	2	2
Perdita Hunt DL OBE	3	1
Ros Kerslake OBE <i>from 4 July 2016</i>	2	2

Communications Committee

The committee met on three occasions during the year and was quorate at each meeting. It is chaired by a trustee. The committee advises on communications strategy and acts as a sounding board for key initiatives. 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
Sir Peter Luff	3	3
Dame Seona Reid DBE	3	1
Jim Dixon	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 of risk 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 16 on page 62, 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.

Listed Places of Worship: Roof Repair Fund (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 NHMF's finance team. This 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 year 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 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 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 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 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 Kerlake 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.

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 <i>from 1 April 2016</i>	20-25	0
Anna Carragher <i>from 7 October 2016</i>	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 <i>to 9 January 2017</i>	0-5	0-5
Jim Dixon	10-15	10-15
David Heathcoat-Amory <i>to 9 January 2017</i>	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

Remuneration of employees (audited information)

The remuneration of directors was as set out in the table below and the table on page 28:

	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 <i>Chief Executive 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 <i>Director of Operations</i>	80 to 85	80 to 85	0 to 5	0 to 5	18	79	105 to 110	165 to 170
Judith Cligman <i>Director of Strategy and Business Development</i>	95 to 100	95 to 100	0 to 5	0 to 5	21	30	120 to 125	125 to 130
Colin Bailey <i>Director of Finance and Corporate Services (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 <i>Director of Communications from 1 April 2016²</i>	80 to 85	n/a	0 to 5	n/a	60	n/a	145 to 150	n/a
Robin Seedhouse <i>acting Director of Finance and Corporate Services from 3 May 2016 to 3 July 2016¹</i>	10 to 15	n/a	0	n/a	2	n/a	15 to 20	n/a
Carole Souter CBE <i>Chief Executive 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.

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.

Report of the trustees and accounting officer

	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 <i>Chief Executive from 4 July 2016</i>	0 to 2.5	0 to 5	36	n/a	28
Eilish McGuinness <i>Director of Operations</i>	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 <i>Director of Strategy and Business Development</i>	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 <i>Director of Finance and Corporate Services (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 <i>Director of Communications from 1 April 2016²</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 <i>acting Director of Finance and Corporate Services from 3 May 2016 to 3 July 2016¹</i>	0 to 2.5	35 to 40	634	n/a	2
Carole Souter CBE <i>Chief Executive 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.

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 Service 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 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 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 19) 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 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)

Staff costs for 2016–17 were as follows:

	2016–17 £'000	2015–16 £'000
Salaries	9,423	8,646
Employer’s NI payments	887	582
Payments to pension scheme	1,847	1,740
Temporary staff costs	150	129
Total	12,307	11,097

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

2016–17	Grant applications	Finance and corporate services	Strategy and business development	Communications	Total
Permanent staff	177	36	27	23	263
Secondees, contract staff and apprentices	12	3	4	1	20
Total	189	39	31	24	283

2015–16	Grant applications	Finance and corporate services	Strategy and business development	Communications	Total
Permanent staff	168	37	24	21	250
Secondees, contract staff and apprentices	15	3	1	1	20
Total	183	40	25	22	270

Temporary and agency staff have not been included in the above figures as our systems do not allow for the collection and calculation of an FTE figure.

The gender split of our Lottery distribution staff as at 31 March 2017 on a headcount basis was as follows:

	Male	Female	Non-binary	Total
Directors	1	4		5
Staff	79	224	1	304

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 the scheme 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 $\frac{1}{60}$ th 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 $\frac{1}{60}$ th of final pensionable earnings for each year of service. Unlike classic there is no automatic lump sum. Classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as per premium. In nuvos a member builds up a pension based on their pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with pensions increase legislation.

Benefits in alpha build up in a similar way to nuvos except that the accrual rate is 2.32%. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The partnership pension account is a stakeholder pension arrangement. Employer's contributions of £19,012 (2015–16: £17,609) 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 are currently six members of staff working on Lottery distribution activities 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 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 £1,846,850 (2015–16: £1,740,237) were paid to PCSPS and alpha at the rates set out 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 £478,000 on consultants in 2016–17 (2015–16: £477,000) as part of its Lottery distribution activities. NHMF has used the definitions of consultancy contained within annex 6.1 of the Cabinet Office controls guidance: version 4.0. The vast majority of this consultancy related to research undertaken on our grant programmes and the heritage sector.

Tax arrangements of public sector employees

HM Treasury requires all central government bodies to report on the tax status of senior management and long-term contractors. In particular HM Treasury requires all senior managers to be on the payroll and to pay tax under the PAYE scheme. All senior staff, trustees and regional and country committee members are on the payroll of NHMF and therefore pay tax and national insurance contributions through the PAYE route. In 2014–15 we identified two contractors who did not meet HM Treasury guidance. Neither contractor occupied a senior post and both were brought within the 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 Kerlake 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's Lottery distribution activities for the year ended 31 March 2017 under the National Lottery etc. Act 1993. 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 Lottery Act etc. 1993. I conducted my audit in accordance with international standards on auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the National Heritage Memorial Fund's Lottery distribution activities circumstances and have been

consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made in respect of the National Heritage Memorial Fund's Lottery distribution activities; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the performance report and the accountability 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:

- the financial statements give a true and fair view of the state of the National Heritage Memorial Fund's Lottery distribution activities affairs as at 31 March 2017 and of its operating deficit for the year then ended; and
- the financial statements have been properly prepared in accordance with the National Lottery etc. Act 1993 and secretary of state directions issued thereunder.

Opinion on other matters

In my opinion:

- the parts of the remuneration and staff report to be audited have been properly prepared in accordance with secretary of state directions made under the National Lottery etc. Act 1993; and
- 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:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the parts of the remuneration and staff report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the governance statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Sir Amyas CE Morse

Comptroller and Auditor General

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
Proceeds from the National Lottery	8		325,989	384,665
NLDF investment income	8		1,062	1,569
			327,051	386,234
Interest receivable		62		57
Sundry income	2	460	522	1,264
Total income			327,573	387,555
New grant awards	10	(453,146)		(380,955)
Award de-commitments	10	20,500		14,103
			(432,646)	(366,852)
Staff costs (as per the remuneration and staff report)		(12,307)		(11,097)
Depreciation and amortisation	5 and 6	(642)		(588)
Other operating charges	3	(9,575)		(8,604)
			(22,524)	(20,289)
Total expenditure			(455,170)	(387,141)
Operating (deficit)/surplus			(127,597)	414
Total comprehensive (expenditure)/income for the year ended 31 March 2017			(127,597)	414

The notes on pages 40 to 62 form part of these accounts.

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

	Income and expenditure account £'000
Balance at 31 March 2015	(395,502)
Changes in equity in 2015-16	
Retained surplus	414
Balance at 31 March 2016	(395,088)
Changes in equity in 2016-17	
Retained deficit	(127,597)
Balance at 31 March 2017	(522,685)

The notes on pages 40 to 62 form part of these accounts.

Statement of financial position as at 31 March 2017

	Notes	2016-17 £'000	2015-16 £'000
Non-current assets			
Intangible fixed assets	5	290	543
Property, plant and equipment	6	719	951
Current assets			
Investments - balance at the NLDF	8	496,757	594,904
Trade and other receivables	7	2,638	3,718
Cash and cash equivalents		2,583	3,368
		501,978	601,990
Total assets		502,987	603,484
Current liabilities			
Administrative liabilities	9	(2,732)	(2,534)
Grant liabilities due within one year	10	(362,039)	(352,518)
Non-current assets plus net current assets		138,216	248,432
Non-current liabilities			
Grant liabilities due in more than one year	10	(660,901)	(643,520)
Assets less liabilities		(522,685)	(395,088)
Represented by:			
Income and expenditure account brought forward		(395,088)	(395,502)
Movement in the year		(127,597)	414
Income and expenditure account carried forward		(522,685)	(395,088)
		(522,685)	(395,088)

The notes on pages 40 to 62 form part of these accounts.

Sir Peter Luff
Chair

Ros Kerslake OBE
Chief Executive and Accounting Officer

3 July 2017

Statement of cash flows for the year ended 31 March 2017

	Notes	2016-17 £'000	2015-16 £'000
Operating activities			
Cash drawn down from the NLDF	8	425,198	357,328
Cash from other sources	2	460	1,264
Cash paid to and on behalf of employees		(12,019)	(10,974)
Interest received on bank accounts		62	57
Cash paid to suppliers		(8,585)	(9,127)
Cash paid to grant and loan recipients	10	(405,744)	(334,934)
Net cash (outflow)/inflow from operating activities	13a	(628)	3,614
Investing activities			
Capital expenditure and financial investment	13b	(157)	(564)
(Decrease)/increase in cash and cash equivalents		(785)	3,050

The notes on pages 40 to 62 form part of these accounts.

Reconciliation of net cash flow to movement in net funds for the year ended 31 March 2017

	Notes	2016-17 £'000	2015-16 £'000
(Decrease)/increase in cash and cash equivalents in the period		(785)	3,050
Changes in cash and cash equivalents	13c	(785)	3,050
Cash and cash equivalents at 1 April 2016		3,368	318
Cash and cash equivalents at 31 March 2017		2,583	3,368

The notes on pages 40 to 62 form part of these accounts.

Notes to the accounts for the year ended 31 March 2017

1. Statement of accounting policies

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

a) Accounting convention

These accounts are drawn up in a form directed by the 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 the accounts' direction issued by the culture secretary in December 2014. 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 and requires the use of accruals' accounting for awards.

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.

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

b) Non-current assets

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

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

No internally generated costs are capitalised. Depreciation commences in the month after the asset is put into operation.

c) Allocation of costs and segmental reporting

IFRS 8 requires information to be provided on segmental reporting where this is relevant to the activities of the organisation. Where relevant, senior management identify separate streams of activity and assign operating costs to them pro rata and based upon the level of grant awarded. In cases where there was a significant difference in the manner that applications were processed, ad hoc methods would be used.

NHMF accounts separately for its Lottery distribution activities, which we are required to do under its Lottery accounts' direction. The accounts for NHMF separate its income and expenditure between our standard NHMF activity and the LPOW programme.

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*, issued by HM Treasury. This cost apportionment seeks to reflect the specific proportion of time and expenses committed to each activity. At the end of the financial year the proportion of joint costs apportioned to our Lottery distribution activities was 99% (2015–16: 99%).

d) Taxation

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

e) Pension

The regular cost of providing benefits is charged to the statement of comprehensive net expenditure over the service lives of the members of the scheme on the basis of a constant percentage of pensionable pay. Almost all of our staff are members of PCSPS or the newly-created alpha scheme 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.

f) Leases

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

g) Balances at the NLDF

Balances held at the NLDF remain under the control of the culture secretary and trustees have no influence over how these sums are invested. The share of these balances attributable to the trustees of NHMF is as shown in the accounts and, at the date of the statement of financial position, has been certified by the culture secretary as being available for distribution by the trustees in respect of our current and future liabilities. A fair value reserve is created and adjusted should there be any gain or loss on the revaluation of the NLDF balance reported to us by DCMS. Any adjustment would be disclosed in the statement of changes in equity. Any profit or loss incurred by the NLDF on disposal of investments is added to the value of the NLDF.

h) Grant decisions

Grant awards are recognised as liabilities in the statement of financial position. When liabilities need no longer be recognised, because the project being funded does not require all the money set aside for it under the grant contract, we reduce the value of the outstanding liabilities. All grant liabilities are payable immediately upon receipt of valid payment requests.

Commitments are as defined by an earlier accounts' direction of the culture secretary, issued in October 2002, as the current accounts' direction makes no reference to them. Commitments represent an agreement in principle of the trustees to fund a heritage project. We treat them as a contingent liability in note 11 on page 47 because they represent a significant potential liability that must be taken into account when making decisions about the level of resources available. Commitments come in two types:

- 1) where the final decision to award a grant has been made but there is not yet a signed contract with the grantee. When a grant contract is regarded as being in place, the commitment is treated as a full liability.
- 2) where a first-round pass or a stage-one pass is given to a heritage project. While in these circumstances funding is subject to a second decision, this second decision is far more likely to be positive than not and so we feel it is prudent to recognise the first-round or stage-one pass as a commitment at this time.

De-commitments occur when a commitment is not converted into a full liability, normally because the grantee decides not to undertake their project.

i) Loans

Trustees are entitled to make loans to heritage bodies under the National Lottery account directions of the culture secretary. Interest rates and repayment terms are at the discretion of trustees.

j) Joint grant schemes

Where NHMF operates a joint grant scheme partly on behalf of other organisations (currently Parks for People with the Big Lottery Fund and the Great Place programme with Arts Council England) we do not recognise sums received from these bodies as income. In effect funds received from these bodies are simply passed on to grantees or suppliers. Thus we have only included NHMF's share of scheme grant payments in these accounts as we have passed Big Lottery Fund's share on to the grantee. Similarly we have only disclosed NHMF's share of operating expenditure for these schemes and have passed any funding for operating expenditure from Big Lottery Fund on to suppliers.

2. Sundry income

	2016-17 £'000	2015-16 £'000
Repayment of grants	460	1,264

We received £153,000 from a grantee following a court order for fraudulent grant claims and £261,000 from the Vivat Trust Ltd as it went into voluntary liquidation. There were nine other small amounts.

3. Operating deficit

The operating deficit is stated after charging the following:

	2016-17 £'000	2015-16 £'000
Auditor's remuneration	39	39
Payments under operating leases		
- leasehold premises	1,226	1,171
- hire of office equipment	8	13

There were no non-audit fees paid to the external auditors. An analysis of other operating charges, including the above items, is as follows:

	2016-17 £'000	2015-16 £'000
Accommodation	1,552	1,522
Postage and telephone	495	523
Office supplies, print and stationery	528	561
Travel, subsistence and hospitality - trustees	105	109
Travel, subsistence and hospitality - staff	496	458
Professional fees - grant-related	2,614	2,485
Professional fees - non-grant-related	2,213	1,562
Communications	757	731
Office equipment	412	303
Staff training	173	216
Sundry expenses	230	134
	9,575	8,604

4. Recharged costs

As mentioned in note 1 on page 40, NHMF is required to disclose separately its Lottery activities in its Lottery distribution accounts. Many of the overhead costs incurred at the head office in London benefitted both our grant-in-aid and Lottery distribution activities. At the end of the financial year the proportion of joint costs apportioned to Lottery distribution was 99% (2015-16: 99%). All grant-in-aid activities take place at the head office of Holbein Place, London. The costs of operating all other offices are fully recharged to Lottery distribution.

5. Intangible fixed assets

	Website		Information technology		Total	
	2016-17 £'000	2015-16 £'000	2016-17 £'000	2015-16 £'000	2016-17 £'000	2015-16 £'000
Cost at start of year	456	456	2,165	2,018	2,621	2,474
Additions	0	0	0	147	0	147
At end of year	456	456	2,165	2,165	2,621	2,621
Amortisation at start of year	352	283	1,726	1,556	2,078	1,839
Charge for the year	69	69	184	170	253	239
At end of year	421	352	1,910	1,726	2,331	2,078
Net book value						
At start of year	104	173	439	462	543	635
At end of year	35	104	255	439	290	543

The capitalisation of information technology represents the development of electronic application forms and an application assessment management system. The above figures represent costs invoiced to NHMF by software developers. No internally-generated costs have been capitalised. Additions have been amortised over their expected useful lives, which was the originally anticipated end of the period that SF4 covered, ie to 31 March 2018. The framework's period has been extended to March 2019 but no adjustment has been made to estimated asset lives as it is expected that much of the software will be replaced in 2018-19 in preparation for the new framework.

A review of the current cost values of intangible fixed assets, at 31 March 2017, revealed no material difference to historic cost values. Therefore, no adjustment has been made to reflect current cost values of intangible fixed assets.

6. 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	1,137	1,052	2,536	2,218	81	81	3,754	3,351
Additions	0	85	157	332	0	0	157	417
Disposals	(0)	(0)	(0)	(14)	0	0	(0)	(14)
At end of year	1,137	1,137	2,693	2,536	81	81	3,911	3,754
Depreciation at start of year	847	733	1,883	1,667	73	68	2,803	2,468
Charge for the year	117	114	266	230	6	5	389	349
Adjustment on disposal	(0)	(0)	(0)	(14)	0	0	(0)	(14)
At end of year	964	847	2,149	1,883	79	73	3,192	2,803
Net book value								
At start of year	290	319	653	551	8	13	951	883
At end of year	173	290	544	653	2	8	719	951

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 (see also note 4 on page 43).

Finance leases

Some of the property, plant and equipment was held under a finance lease, as shown in the table below. These figures are a part of those detailed in the table on page 44.

IT and other equipment	2016-17 £'000	2015-16 £'000
Cost at start of year	0	7
Additions	0	0
Disposals	(0)	(7)
At end of year	0	0
Depreciation at start of year	0	6
Charge for the year	0	1
Adjustment on disposal	(0)	(7)
At end of year	0	0
Net book value		
At start of year	0	1
At end of year	0	0

Obligations under finance leases are:

IT and other equipment	2016-17 £'000	2015-16 £'000
Amounts for leases expiring in one year	0	0
Amounts for leases expiring in years two to five	0	0
	0	0

These obligations are included in payables (see note 9 on page 46).

7. Trade and other receivables

	2016-17 £'000	2015-16 £'000
Prepayments and accrued income	2,451	3,528
Loans	100	100
Other receivables	56	48
Staff advances	31	42
	2,638	3,718

The loan is with a heritage organisation and is repayable in two tranches in 2018 and 2023. No interest is being charged on the loan. There is a sum of £9,000 due in more than one year from two suppliers (2015-16: £12,000).

Of the above sums, £2,887,000 was owed by central government bodies. At the year end, 35 members of staff had outstanding payroll advances (at 31 March 2016 there were 44).

8. Investments

Movement in balances at the NLDF:

	2016-17 £'000	2015-16 £'000
Current cost at start of year	594,904	565,998
Income received from the National Lottery	325,989	384,665
Funds drawn down by NHMF	(425,198)	(357,328)
Investment return	1,062	1,569
Unrealised profit on investment	0	0
Current cost at end of year	496,757	594,904

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

9. Payables: amounts falling due in one year

	2016-17 £'000	2015-16 £'000
Operating payables	788	690
Other payables including taxation and social security	471	401
Accruals and deferred income	1,473	1,443
	2,732	2,534

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

	2016-17 £'000	2015-16 £'000
Balances owing to central government	506	492
Balances owing to local authorities	0	7
Balances owing to public corporations	0	0
Balances external to government	753	592
	1,259	1,091

10. Grant liabilities

	2016-17 £'000	2015-16 £'000
Brought forward at start of year	996,038	964,120
New liabilities created in the year	453,146	380,955
Liabilities no longer recognised	(20,500)	(14,103)
Grant payments	(405,744)	(334,934)
Carried forward at end of year	1,022,940	996,038

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

	2016-17 £'000	2015-16 £'000
In one year	362,039	352,518
In two years	291,812	284,137
In three years	185,149	180,280
In four years	99,291	96,680
In five years	51,647	50,289
In more than five years	33,002	32,134
	1,022,940	996,038

Liabilities at the year end represent amounts owing as follows:

	2016-17 £'000	2015-16 £'000
Balances owing to central government	113,093	75,135
Balances owing to local authorities	403,544	402,177
Balances owing to public corporations	0	0
Balances owing to NHS trusts	4	9
Balances external to government	506,299	518,717
	1,022,940	996,038

11. Contingent liabilities

Commitments

	2016-17 £'000	2015-16 £'000
Brought forward at start of year	634,443	571,817
Commitments made	490,945	467,997
De-commitments	(11,133)	(24,416)
New liabilities created in the year	(453,146)	(380,955)
Balance carried forward at end of year	661,109	634,443

Contingent liabilities represent commitments that are the value of round-one passes given by trustees. When the applicant returns with the round-two application, these items will either become grant awards or will be rejected.

12. Lease commitments

Total future minimum operating lease payments incurred by NHMF's Lottery distribution activities are as follows:

	2016-17 £'000	2015-16 £'000
Short-leasehold property		
Not later than one year	1,412	1,412
Later than one year but not later than five years	4,010	4,473
Later than five years	2,148	3,096
	7,570	8,981
Other operating leases		
Not later than one year	7	8
Later than one year but not later than five years	0	7
Later than five years	0	0
	7	15

Our lease for Holbein Place, London was subject to a rent review at 30 September 2014. This increased the rent to £850,000 per annum. We await the outcome of a review of rent on our Edinburgh and Manchester offices.

The lease of our previous Cambridge office expired on 31 March 2015. We have now relocated to another site in Cambridge. We have a Memorandum of Terms of Occupation with HM Revenue and Customs up to 31 March 2018.

In May 2011 the Committee for 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. This underlease is for approximately 13 years and will result in rental payments to NHMF totalling £1.4million.

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

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

13. Notes to the statement of cash flows

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

	2016-17 £'000	2015-16 £'000
Operating (deficit)/surplus	(127,597)	414
Add back non-cash items:		
- depreciation	642	588
- loss on disposal of intangible fixed assets and property, plant and equipment	0	0
- movement in fair value reserve	0	0
- increase in grant liability reserve	26,902	31,918
- decrease/(increase) in balance at NLDF	98,147	(28,906)
Decrease/(increase) in non-interest receivables	1,080	(468)
Increase in non-capital payables	198	68
Net cash (outflow)/inflow from operating activities	(628)	3,614

b) Capital expenditure

	2016-17 £'000	2015-16 £'000
Payments to acquire intangible fixed assets	0	147
Payments to acquire property, plant and equipment	157	417
	157	564

c) Analysis of changes in net funds

	At 1 April 2016 £'000	Cash flows £'000	At 31 March 2017 £'000
Cash at bank	3,368	(785)	2,583

14. Related party transactions

NHMF is a non-departmental public body sponsored by DCMS, which 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.

We signed a lease with DCMS in March 2015 to extend the occupation of our office in Birmingham to May 2018. The total expected spend under the agreement is £127,000 and there was £0 owed at 31 March 2017.

The Big Lottery Fund contributed towards the grants made under our Parks for People programme and also towards the operating costs of the programme. At the year end the Big Lottery Fund owed NHMF £1,814,849, representing £104,154 for operating costs and £1,710,695 for its share of grant payments. We also paid the Big Lottery Fund for a number of activities in the year, most notably the provision of legal and procurement services; we paid it around £101,000 during the year and we owed it £25,200 at the year end.

We made a contribution, totalling £14,372, to Sport England for the cost of the independent Lottery distributors' complaints service. No sums were outstanding at the year end.

We paid Arts Council England £10,447 towards the cost of the Lottery Forum administration service in 2016–17 of which £6,267 was owed at the year end. Arts Council England also contributed £100,000 towards the running costs of the joint Great Place grant programme. At the year end it owed us £50,000.

We used Historic England to provide expert advice and mentoring services to some of our grants, paying it £5,841 in 2016–17; £3,951 was owed at the year end. It also provided us with £5,000 worth of research on the effect of cuts in local authority heritage budgets. In addition English Heritage continues to operate our Repair Grants for Places of Worship in England programme. We reimbursed it for grant payments made on our behalf. These totalled £840,211 in 2016–17. Nothing was owed to English Heritage at the year end.

There have also been material transactions with the Cabinet Office to the value of £6,129 for carrying out pension administration on our behalf; nothing was owed to it at the year end.

We paid £3,864 to Amgueddfa Cymru – National Museums Wales for the supply of conference facilities in Cardiff. There was no money owed to it at the year end.

We paid £7,200 in 2016–17 to the Scottish government for a review of the impact of HLF-funded intangible heritage projects. Nothing was owed at the year end. The work was done by Museums Galleries Scotland. We also recharged the costs of monitoring and mentoring certain grant-aided projects to arms of the Scottish government (Creative Scotland, the Directorate for Culture and Heritage, Scottish Enterprise and Historic Environment Scotland). Billing totalled £41,550 in the year and £31,171 was owed by them at the year end.

In May 2011 the Committee for 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 that is jointly sponsored by 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 service charges and we owed it around £6,000 for rent.

As set out on pages 51 to 59, trustees of NHMF had interests in bodies to which NHMF made Lottery grants. Similarly, members of country and regional committees had interests in projects to which their committee made Lottery grants or recommendations to the Board. Trustees and committee members are required to declare any connection with applicants at the start of each meeting and absent themselves from any part of meetings where that grant application is discussed. They take no part in the decision as to whether a grant is awarded or any subsequent decision made about that grant. There are also strict rules on the circumstances in which trustees and committee members can accept paid work from a grantee. Therefore, trustees are satisfied that in no case did individuals have an influence on the decision-making process.

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.

Board of trustees

Norfolk Museums and Archaeology Service

A grant of £462,400 and awarded a first round pass of £9,219,200 – Norwich Castle: Gateway to Medieval England

Steve Miller declared a conflict of interest in his capacity as head of Norfolk Museums and Archaeology Service, the applicant.

Norfolk County Council: Community and Environmental Services

A grant of £455,000 – Marriotts Way Heritage Trail

Steve Miller declared a conflict of interest in his capacity as the acting assistant director of community and environmental services (cultural services) for Norfolk County Council, the applicant.

Borough Council of King's Lynn and West Norfolk

A grant of £89,500 – The South Gate Project

Steve Miller declared a conflict of interest in his capacity as the acting assistant director of community and environmental services (cultural services) for Norfolk County Council and as head of Norfolk Museums Service and Norfolk Arts Service as the applicant was a member of the Joint Museums Agreement.

Norfolk County Council

A grant of £554,600 – The Mill and the Marsh Folk; Stracey Arms Drainage Mill, Norfolk

Steve Miller declared a conflict of interest in his capacity as the acting assistant director of community and environmental services (cultural services) for Norfolk County Council, the applicant.

Diss Town Council

A grant increase of £214,000 to make a total grant of £1,870,400 – Diss Heritage Triangle and Diss Corn Hall Built for Exchange

Steve Miller declared a conflict of interest in his capacity as the acting assistant director of community and environmental services (cultural services) for Norfolk County Council as the council provided partnership funding to the project.

Canterbury Cathedral

A grant of £12,849,500 – The Canterbury Journey

Sir Roger De Haan CBE declared a conflict of interest as the Roger De Haan Charitable Trust had contributed funding to the project.

Historic England

A grant increase of £7,894,200 to make a total grant of £20,717,500 – Ditherington Flax Mill Maltings, International Heritage site at the heart of the community

Sir Neil Cossons OBE declared a conflict of interest as he had a long-standing interest in and association with the site.

Canal & River Trust in partnership with the National Trust

A grant of £2,468,800 – Roundhouse Birmingham – an innovative blend of historical discovery, outdoor activities and urban enterprise

Sir Neil Cossons OBE declared a conflict of interest as he chaired the Canal & River Trust's Heritage Advisory Group

Shropshire Wildlife Trust

A grant of £786,200 – Restoring the Marches Mosses
Sir Neil Cossons OBE declared a conflict of interest as his wife was president of the applicant organisation.

Nottingham City Council

A grant of £13,883,400 – Revisioning Nottingham Castle – 1000 years of history
Sir Neil Cossons OBE declared a conflict of interest as he was a patron of the Nottingham Castle Trust.
Jim Dixon declared a conflict of interest as his brother was the lead officer for the project.

Brighton and Hove City Council

A grant of £2,524,266.67– The Stanmer Park restoration project: reviving and celebrating the heritage of the Stanmer Estate
Anna Carragher declared a conflict of interest as her daughter in law was on the applicant's project team.

National Museum Wales

A grant increase of £997,300 to make a total grant of £12,547,300 – Creu Hanes – Making History
Baroness Kay Andrews OBE declared a conflict of interest as she was a trustee of the applicant organisation.

Committee members

Royal Cornwall Museum

A grant of £97,300 – Royal Cornwall Museum and Library Strategic Business Plan and Spatial Study
Tamsin Daniel declared a conflict of interest as her employer, Cornwall Council, gave a substantial annual grant to the applicant and was involved in the planning discussions.

Hall for Cornwall

A grant of £233,600 and a first round pass of £2,800,500 – Revealing City Hall: One Building, 1265 Voices
Tamsin Daniel declared a conflict of interest as her employer, Cornwall Council, was a major funding partner and she had been heavily involved in the development of the bid.

Tamar Bridge & Torpoint Ferry

A grant of £37,000 and a first round pass of £309,700 – Bridging the Tamar: a Learning Centre and STEAM Hub to explore Tamar's two key bridges
Tamsin Daniel declared a conflict of interest as her employer, Cornwall Council, owned the buildings being renovated.

Calstock Parish Council

A grant of £25,900 and a first round pass of £343,800 – Calstock Parish Archive and Meeting Room
Tamsin Daniel declared a conflict of interest as she had provided advice to the applicant for its original application.

St Pol de Leon Church, Paul, Penzance

A grant of £254,000 – Celebrating Peace through the restoration of a significant WWI memorial Window
Tamsin Daniel declared a conflict of interest as she had provided the applicant with support for the project.

The Dukes Playhouse

A grant of £58,700 – Port Stories – animating stories of Lancaster’s maritime heritage
Ivan Wadeson declared a conflict of interest in his capacity as director of the applicant organisation.

Curious Minds

A grant of £10,000 – Blaze Harris Transformers
Ivan Wadeson declared a conflict of interest as he was a trustee of the applicant organisation.

The Restoration Trust

A grant of £53,400 – Human Henge – historic landscape and mental health at Stonehenge
Sarah Staniforth declared a conflict of interest in her capacity as a trustee of English Heritage who would benefit from the project.

Chipping Campden History Society

A grant of £26,300 – The Howse that was so fayre – discovering Campden House and Gardens
Sarah Staniforth declared a conflict of interest as she was a trustee of the Landmark Trust who owned the land and managed the east and west banqueting house at Campden House.

The Landmark Trust

A grant of £96,000 and a first round pass of £582,600 – Saving Winsford Cottage Hospital
Sarah Staniforth declared a conflict of interest as she was a trustee of the applicant organisation.

The Parish of Lundy within the Hartland Coast Mission Community

A grant of £74,900 and a first round pass of £931,900 – The Conservation and Development of the St Helen’s Centre, Lundy for learning, research and worship
Sarah Staniforth declared a conflict of interest as she was a trustee of the Landmark Trust who owned Lundy Co Ltd, a partner to the project and the organisation that oversaw the management of the buildings and island.

Christchurch Activities for Young People

A grant of £26,500 – Christchurch Heritage Activities for Young People
Wilbert Smith declared a conflict of interest as he worked closely with the applicant and was a trustee of Christchurch Open Awards Centre, a partner organisation of the applicant.

Priest’s House Museum

A grant of £145,200 and a first round pass of £1,127,400 – Priest’s House Revival
Wilbert Smith declared a conflict of interest as his employer, Christchurch and East Dorset councils, provided the applicant with financial and other support and had written a letter of support for the application.

Cranborne Chase and West Wiltshire Downs AONB

A grant of £105,400 and a first round pass of £1,782,000 – Cranborne Chase Landscape Partnership
Wilbert Smith declared a conflict of interest as his employer, Christchurch and East Dorset councils, was a partner in the project.

Heritage Trust of Lincolnshire

A grant of £79,500 – Heritage Lincolnshire – Strengthening Our Business
David Stocker declared a conflict of interest as he was the chair of the applicant’s Advisory and Liaison Committee.

Heritage Trust of Lincolnshire

A grant of £10,000 – Boston Sessions House

David Stocker declared a conflict of interest as he was the chair of the applicant's Advisory and Liaison Committee.

Heritage Trust of Lincolnshire

A grant of £404,700 – Layers of History: Discovering Lincolnshire's Past Landscapes

David Stocker declared a conflict of interest as he was the chair of the applicant's Advisory and Liaison Committee.

Boston Borough Council

A grant of £996,000 – Boston Townscape Heritage project

David Stocker declared a conflict of interest as he was a trustee of the Society for Lincolnshire History and Archaeology's Building Recording Committee who would deliver part of the project.

Lincoln Cathedral

A grant of £11,456,100 – Lincoln Cathedral Connected

David Stocker declared a conflict of interest as he sat on the Lincoln Cathedral Fabric Advisory Committee and had helped to write the Cathedral's conservation plan.

Hampshire Cultural Trust

A grant of £100,000 – Westbury Manor Museum: The Westbury

Helen Jackson declared a conflict of interest as she was a trustee of the applicant organisation.

Brighton and Hove City Council

A grant of £2,524,266.67 – The Stanmer Park restoration project: reviving and celebrating the heritage of the Stanmer Estate

Helen Jackson declared an interest as she was a member of the South Downs National Park Authority.

Oswestry Community Action

A grant of £29,900 – Oswestry Heritage Comics

Marion Blockley declared a conflict of interest as she had provided a letter of support for the project.

United Kingdom Historic Building Preservation Trust

A grant of £125,400 and a first round pass of £1,099,900 – Home Hub-Spaces:

Engagement in Heritage

Marion Blockley declared a conflict of interest as she worked as a consultant with the applicant.

Canal & River Trust

A grant of £2,525,000 – Restoring the Montgomery Canal as a resource for people and wildlife

Marion Blockley declared a conflict of interest as she had produced the activity plan for the project.

Jim Harker declared a conflict of interest as he was a council member of the applicant organisation.

National Trust North

A grant of £15,200 – Armstrong's Electrical Legacy Engagement Programme

Niall Hammond declared a conflict of interest as he was a member of the National Trust's Historic Environment Advisory Group and sat on the applicant's Yorkshire and the North East Regional Advisory Board.

Groundwork North East

A grant decrease of £4,500 to make a total grant of £1,885,000 – River Tees Rediscovered
Niall Hammond declared a conflict of interest as his consultancy had been asked to tender for a contract within the project.

Buccleuch Living Heritage Trust

A grant of £4,200 – Echoes and Footsteps: researching and sharing how Geddington was affected by WWI

Jim Harker declared a conflict of interest as he was a governor of Geddington School, which was a project partner.

Canal & River Trust in partnership with the National Trust

A grant of £2,468,800 – Roundhouse Birmingham – an innovative blend of historical discovery, outdoor activities and urban enterprise

Jim Harker declared a conflict of interest as he was a council member of the applicant organisation.

Churches Conservation Trust

A grant of £1,841,800 – St Peter and the Old Black Lion, Northampton

Jim Harker declared a conflict of interest as Northampton County Council, of which he was a member and the council leader, was a key partner in the application.

The Wildlife Trust for Bedfordshire, Cambridgeshire and Northamptonshire

A grant of £662,800 – Into the Valley, Rushden

Jim Harker declared a conflict of interest as Northampton County Council, of which he was a member and the council leader, was a joint signatory as landowners on the contract.

Silverstone Heritage Ltd

A grant of £8,664,500 – The Silverstone Heritage Experience and Collections

Jim Harker declared a conflict of interest as he was a former director of Silverstone Circuits Ltd, one of the project partners.

Sudbury Gasworks Restoration Trust Ltd

A grant of £116,800 and a first round pass of £1,390,300 – Sudbury Gasworks: Rescued and Restored

Geoff Nickolds declared a conflict of interest as he had formerly been a council member at the National Trust, which was a project partner.

London Borough of Redbridge

A grant of £218,800 and a first round pass of £4,466,400 – Hainault Ancient Forest

Jon Sheaff declared a conflict of interest as his consultancy had prepared the applicant's bid.

Beamish Museum

A grant of £10,891,200 – Remaking Beamish

Richard Evans declared a conflict of interest as he was the director of the applicant organisation.

Kielder Water and Forest Park Development Trust

A grant of £336,300 – Living Wild at Kielder

Lynn Turner declared a conflict of interest as she was the director of the applicant organisation.

Chris Mullin declared a conflict of interest as he was the chairman of the Northumberland Wildlife Trust, a partner in the application

Northumberland Wildlife Trust Ltd

A grant of £20,700 and a first round pass of £368,500 – Kielderhead Wildwood
Lynn Turner declared a conflict of interest as she was the director of Kielder Water and Forest Park Development Trust, which would benefit from the project.
Chris Mullin declared a conflict of interest as he was president of the applicant organisation.

Northumberland Wildlife Trust

A grant of £421,900 – Restoring Ratty: the return of the Water Vole to Kielder Forest
Lynn Turner declared a conflict of interest as she was the director of Kielder Water and Forest Park Development Trust, which would benefit from the project.
Chris Mullin declared a conflict of interest as he was the president of the applicant organisation.

Northumberland Coast Area of Outstanding Natural Beauty Partnership

A grant of £522,600 – Coast Care – Volunteers on the Northumberland Coast
Chris Mullin declared a conflict of interest as he was the president of the Northumberland Wildlife Trust, a partner in the application.

North of England Civic Trust

A grant of £145,200 – NECT 50+
Chris Mullin declared a conflict as he was a trustee of the applicant organisation.

Groundwork North East

A development grant of £6,000 and a first round pass of £656,000 – Land of Oak & Iron Heritage Centre
Jim Cokill declared a conflict of interest as he was the director of Durham Wildlife Trust, a partner of the project.

Durham Wildlife Trust

A grant of £51,100 – Revealing Reptiles
Jim Cokill declared a conflict of interest as he was director of the applicant organisation.

Durham Wildlife Trust

A grant of £10,000 – Green environment, greener economy, better health – training elected members
Jim Cokill declared a conflict of interest as he was director of the applicant organisation.

Durham Wildlife Trust

A grant of £8,400 – Ready for Growth
Jim Cokill declared a conflict of interest as he was director of the applicant organisation.

Lancashire Wildlife Trust

A grant of £1,997,700 – The Carbon Landscape
Steve Garland declared a conflict of interest as he was the chair of the applicant organisation.

Carlisle Cathedral

A grant of £1,918,500 – Bringing Untold Stories to Life for Everyone
Humphrey Welfare declared a conflict of interest as he was a member of the Fabric Advisory Committee for the applicant organisation.

Cairngorms National Park Authority

A grant of £2,338,100 – Tomintoul & Glenlivet Hidden Histories Landscape Partnership
Alice Mayne declared a conflict of interest as the applicant was her employer and some of the match funding came from Cairngorms Leader, which she managed.

The Langholm Initiative

A grant of £1,378,700 – South of Scotland Golden Eagle Project

Stuart Housden declared a conflict of interest as he was director of the Royal Society for the Protection of Birds (RSPB) Scotland and a member of RSPB's UK-wide board who were project partners.

Hadlow College

A grant of £1,317,200 – Kent Mining Museum

Bill Ferris declared a conflict of interest as he was part of an advisory steering group to the applicant.

Medway Council

A grant of £1,782,600 – Command of the Heights

Bill Ferris declared a conflict of interest as he was the chief executive of the Chatham Historic Dockyard Trust, which would benefit from the project.

Ashmolean Museum of Art and Archaeology

A grant of £1,102,500 – Acquisition of the Watlington Viking Hoard

Susan McCormack declared a conflict of interest as she was the director of public engagement at the applicant organisation.

Butterfly Conservation

A grant of £318,100 – All the Moor Butterflies – Conserving the South West's threatened moorland butterflies and moths

Evelyn Stacey declared a conflict of interest as she was a member of the Exmoor National Parks Authority Board, which was a partner in the project.

Plantlife International

A grant of £69,800 and a first round pass of £504,400 – Building Resilient Woodlands in the South West

Evelyn Stacey declared a conflict of interest as Exmoor National Park Authority, of which she was a board member, was a beneficiary of the project.

Living Options Devon

A grant of £527,000 – The Heritage Ability Project, South West

Evelyn Stacey declared a conflict of interest as Wheal Martyn Museum would benefit from the project. She was formerly the CEO of the museum and continued to be the director of the museum charity's subsidiary, Wheal Martyn Enterprises.

University of Exeter

A grant of £38,500 and a first round pass of £261,000 – Understanding Landscapes: empowering communities to preserve their heritage

Phil Collins declared a conflict of interest as his wife was a PhD student in the archaeology department and may receive work through the project.

Keep Wales Tidy

A grant of £611,200 – The Long Forest: Community engagement to safeguard Welsh hedgerows
Rhian Thomas declared an interest as she was a former trustee of the applicant organisation.

Keep Wales Tidy

A grant of £70,000 and a first round pass of £650,000 – The identification, restoration and celebration of sacred springs, holy wells and medicinal spas

Rhian Thomas declared a conflict of interest as she was a former trustee of the applicant organisation.

Claymills Pumping Engines Trust Ltd

A grant of £56,100 and a first round pass of £1,748,900 – Visitor Centre for Claymills Victorian Pumping Station

Alan Taylor declared a conflict of interest as he had worked with the applicant team for many years and was in regular contact with them.

Walkley Carnegie Library

A grant of £67,000 and a first round pass of £1,329,000 – Lending a New Lease of Life to Walkley Library

Tony Collins declared a conflict of interest as he was the director of the applicant organisation.

Horniman Museum and Gardens

A grant of £272,000 – Acquisition of Four Historic Keyboard Instruments from Finchcocks for Use and Display

Hillary Carty declared a conflict of interest as she was a trustee of the applicant organisation.

The West India Committee

A grant of £78,400 – Sugar, Spice and Everything Nice, That's What The Police Are Made Of
Blondel Cluff declared a conflict of interest as she was the chief executive of the applicant organisation.

Lymington Museum Trust

A grant of £275,000 – Securing the Future of St. Barbe

Stephen Boyce declared a conflict of interest as he has given ongoing advice to the applicant organisation.

Askham Bryan College

A grant of £155,600 and a first round pass of £3,183,500 – The conservation and enhancement of the Central Lodge at Stewart Park, Middlesbrough as a land based education facility

John Williams declared a conflict of interest as he was a governor of the applicant organisation.

True Form Project CIC

A grant of £73,200 – Youth Generations

Izzy Mohammed declared a conflict of interest as he was providing outreach and interpretive support through the organisation Future Seed CIC, of which he was director.

Mercurial Arts Ltd

A grant of £79,500 – Histories at Hobmoor

Izzy Mohammed declared a conflict of interest as he had provided initial consultation and advice on the project.

North of England Institute of Mining and Mechanical Engineers

A grant of £600,000 and a first round pass of £4,100,000 – The North of England Mining Institute and Common Rooms

Keith Sweetmore declared a conflict of interest as he was a member of the applicant organisation's Collections Advisory Committee.

Staff

Cambo Heritage Trust

A grant increase of £87,000, to make a total grant of £1,302,600 – Cambo: a window on the past, a door to the future

Nicholas Meny, grants officer, declared a conflict of interest as his partner was employed by the applicant organisation.

15. Financial instruments

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

Liquidity risk

In 2016–17 £326million (99.5%) of NHMF's Lottery distribution income derived from the National Lottery. The remaining income derived from investment returns on the balance held with the NLDF of £1.1million (0.3%) along with a small amount of bank interest and grant repayments. The trustees recognise that their grant liabilities and other payables significantly exceeded the value of funds in the NLDF at 31 March 2017. However, trustees consider that their Lottery distribution activities are not exposed to significant liquidity risks as they are satisfied that they will have sufficient liquid resources within the NLDF and the bank to cover all likely grant payment requests in the coming years. Trustees have been informed by DCMS, most recently in March 2014, that it has no plans to change the Lottery distribution arrangements for the heritage sector. Indeed, DCMS increased the heritage share of National Lottery good causes money to 20% from April 2012. Trustees have set a long-term grant award strategy to ensure that their Lottery distribution liabilities are in line with assets and that trustees are able to meet their commitments to March 2023 when the fourth Lottery operating licence expires. Thus, even if there were a long-term decline in Lottery income, trustees would simply adjust annual grant budgets to compensate.

Market and interest rate risk

The financial assets of NHMF's Lottery distribution activities are invested in the NLDF, which invests in a narrow band of low-risk assets such as government bonds and cash. Trustees have no control over the investment of these funds. For these two reasons we have not carried out sensitivity analysis on market risks. At the date of the statement of financial position, the market value of our investments in the NLDF was £497million. We are informed by DCMS that funds at the NLDF earned on average 0.34% in the year. Our cash balances, which are amounts drawn down from the NLDF to allow us to pay grants and operating costs, are held in instant-access variable-rate bank accounts, which carried an interest rate of 0.45% in the year. The sharp decline in market interest rates in 2008, coupled with the small cut in 2016–17, has had a significant impact on investment returns but as there is little room for rates to fall further the risk is small. The cash balance at the year end was £2.6million. Trustees consider that their Lottery distribution activities are

not exposed to significant interest rate risks. Other financial assets and financial liabilities carried nil rates of interest.

	2016-17 £'000	2015-16 £'000
Cash balances		
– sterling at floating interest rates	2,583	3,368
– sterling at a mixture of fixed rates	496,757	594,904
	499,340	598,272

Credit risk

The figure for receivables almost entirely comprises prepayments, accrued income (mostly on property leases and business rates) and intra-government balances. The intra-government balances are mostly with bodies that DCMS sponsors. All had been paid by the time of signing the accounts with the exception of a loan that is not due for repayment for a number of years. Trustees do not consider that their Lottery distribution activities are exposed to significant credit risk.

Foreign currency risk

NHMF's Lottery distribution activities are not exposed to any foreign exchange risks.

Financial assets by category

	2016-17 £'000	2015-16 £'000
Assets per the statement of financial position		
– investments available for sale	496,757	594,904
– cash and cash equivalents	2,583	3,368
– loans and receivables	2,638	3,718
	501,978	601,990

Financial liabilities by category

	2016-17 £'000	2015-16 £'000
Liabilities per the statement of financial position		
– provision	0	0
– other financial liabilities		
• grant payables	1,022,940	996,038
• operating payables	788	690
• other payables	471	401
• accruals	1,473	1,443
	1,025,672	998,572

Fair values

Set out on page 61 is a comparison, by category, of book values and fair values of HLF's financial assets and liabilities as at 31 March 2017.

Financial assets at 31 March 2017

	Book value £'000	Fair value £'000
Cash ¹	2,583	2,583
Investments ²	496,757	496,757
Receivables ³	2,638	2,638
	501,978	501,978

Financial assets at 31 March 2016

	Book value £'000	Fair value £'000
Cash ¹	3,368	3,368
Investments ²	594,904	594,904
Receivables ³	3,718	3,718
	601,990	601,990

Financial liabilities at 31 March 2017

	Book value £'000	Fair value £'000
Grant payables ⁴	1,022,940	1,022,940
Operating payables ⁵	788	788
Other payables ⁵	471	471
Accruals ⁵	1,473	1,473
	1,025,672	1,025,672

Financial liabilities at 31 March 2016

	Book value £'000	Fair value £'000
Grant payables ⁴	996,038	996,038
Operating payables ⁵	690	690
Other payables ⁵	401	401
Accruals ⁵	1,443	1,443
	998,572	998,572

Basis of fair valuation

- 1 The figure here is the value of deposits with commercial banks. It is expected that book value equals fair value.
- 2 Investments are controlled by the culture secretary. She or he provides the trustees with details of the book value and fair value of our balances at the date of the statement of financial position.
- 3 No provision for bad debt is deemed necessary. None of the debts is long term other than one long-term loan.
- 4 While we disclose £661million of grant payables as not being due for payment until after one year in the statement of financial position, we have not made a fair value adjustment. Trustees have a contractual obligation to pay these amounts on demand, subject to contract, and so the amounts could be paid within the next 12 months if the underlying heritage projects proceed more quickly than anticipated.
- 5 All payables are due within normal contractual terms, usually 14–30 days, and so no difference exists between book value and fair value.

Maturity of financial liabilities

	2016–17 £'000	2015–16 £'000
In less than one year	1,025,672	998,572
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
	1,025,672	998,572

The statement of financial position discloses the figures on page 61 separated between amounts due in one year and amounts due in more than one year. Our contracts with grantees contain no split between amounts due within one year and beyond one year. The split reported in these accounts is based purely upon our past experience of amounts drawn down by grantees to fund their projects. Theoretically, grantees could demand their entire grant within the next 12 months if their projects were completed in that period. Hence we have adopted a prudent approach and shown the maturity of liabilities to be all within one year.

16. Statement of losses

HLF made losses through the write-off of five grants totalling £58,564 in the year (2015-16: nine grants totalling £107,887).

17. 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.

18. Staff costs

Staff costs for 2016-17 were as follows:

	2016-17 £'000	2015-16 £'000
Salaries	9,423	8,646
Employer's NI payments	887	582
Payments to pension scheme	1,847	1,740
Temporary staff costs	150	129
	12,307	11,097

19. Presentation of annual report and accounts

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.

Policy directions

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

At the same time, the National Assembly for Wales issued policy directions related to money distributed in Wales, and in 2011 the Scottish government issued directions for money distributed in Scotland. These complement the UK-wide directions and are reproduced in full on pages 70 to 73.

a) Needs of the heritage

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

In 2016–17 demand for National Lottery funding for heritage remained high. As a result of continued strong ticket sales we were able to commit £468.4million in awards against applications worth £1.13billion (up by 28% from 2015–16).

This was the fourth year of operation under SF4. We have continued to support the sector in a challenging operating environment, embedding new programmes and initiatives, including Resilient Heritage and the Great Place Scheme, to address the need to build greater resilience in heritage organisations, to embed culture in local plans and decision making and to support growth.

The centenary of the First World War continued to attract significant public and media interest this year. Since April 2010 HLF has awarded £86million to 1,720 projects marking it including large grants to the National Museum of the Royal Navy for HMS Caroline (£15,086,100), Imperial War Museums (£16.5million), the 14–18 NOW arts programme (£10million), the Tank Museum (£2,709,600) and Snowdonia National Park Authority for the conservation of the Yr Ysgwrn, home of Hedd Wyn (£2,972,500). Through our small grants programme First World War: Then and Now, launched in May 2013, we have awarded £10.7million to 1,285 projects with many organisations

receiving an HLF grant for the first time. The awards have helped a wide range of community organisations to explore and commemorate the centenary. HLF has funded centenary projects in 93% of UK local authority areas.

We have delivered some new responsive measures to meet increasing need and our priorities for a more inclusive heritage sector. These include the consolidation of current resilience funding into a new Resilient Heritage programme with an increased budget and a larger maximum grant (£250,000), a further round of the Heritage Endowments and Skills for the Future programmes and a new young people’s programme, Kick the Dust.

We have also further developed our online communities as a focus for sharing learning and good practice across the sector. In 2016–17 we held live chats on programmes such as Resilient Heritage and Skills for the Future as well as issues such as apprenticeships, environmental sustainability, partnerships, adult learning in heritage and social media. Our forums on the Landscape Partnership programme and the themes of young people and heritage and skills and resilience continue to provide a focus for those with shared interest in them.

b) Public involvement

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

In developing our funding strategies we regularly consult customers and the National Lottery-playing public for an end-user perspective on our work, to inform policy and practice, and to increase public understanding of what we do. All our application materials and processes are tested with customers at all levels of grant. We began the consultation process for our next strategic framework starting in 2019 by running workshops with National Lottery players across each region and country of the UK. As part of Kick the Dust, our new grants programme named by

young people, we are planning to recruit a panel of young people to advise on award decisions.

We have continued our policy of open recruitment to our committees in all areas of England, Northern Ireland, Scotland and Wales. In 2016–17 we appointed 21 new committee members. Committees make decisions on grants between £100,000 and £2million.

c) Access and participation

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

A key outcome of SF4 remains that ‘more people and a wider range of people are engaged with heritage’ as a result of the projects we fund. Our Business Plan this year has prioritised diversifying our grant making through targeted development work and the implementation of a new policy in decision making. Our Equality Steering Group, chaired by the chief executive and this year with expanded senior representation, has continued to monitor and report on this work.

Our smaller grant programmes remain particularly successful tools for ensuring our funding has local reach and drives participation. In 2016–17 we funded over 480 Sharing Heritage projects across the UK awarding a total of £4.15million; we also funded 211 First World War: Then and Now projects. Both programmes award grants of under £10,000 and are targeted at community groups. We also made 98 awards totalling £852,120 as part of our Scotland-specific funding campaign, Stories, Stones and Bones. Designed to support the Scotland-wide celebration, the Year of History, Heritage and Archaeology, and to encourage people to get involved in heritage for the first time, the campaign awarded 52 grants to first-time applicants.

Our 12 regional and country development teams continue to actively promote our funding to new groups that have reach into local communities and can drive greater participation in heritage. This outreach work has been focused in geographical areas where we have seen below-average spend and, in some places, on particular audiences with protected characteristics in the Equality Act and who are under-represented in our funding, notably disabled people and those from lesbian, gay, bisexual and transgender communities. This year all regions and countries have continued to encourage more applications from organisations representing the interests of black, Asian and minority ethnic (BAME) communities and since May 2016 all decision takers have prioritised applications led by BAME communities in tie-breaker situations. For example, this has led to two of the 18 projects funded through our Skills for the Future programme being led by organisations with a focus on BAME heritage. Overall this year we have awarded £7,968,900 to 91 projects led by organisations representing the interests of BAME communities.

Our work to increase participation through grant making has been supported by new communications and advocacy activity this year. A partnership with the BBC linking to its Black British season allowed us to promote HLF-supported projects that were focused on broadening participation in heritage. A blog written by historian David Olusoga proved popular on our website alongside new case studies designed to inspire future applications. The highlight of an ongoing strand of work on inclusive heritage, led by the chair, was a seminar on the role of heritage in the lives of people with dementia and those experiencing mental ill health. Presentations have been shared through our online community and further blogs published to inspire project ideas.

d) Children and young people

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

We have significantly developed our work related to young people this year, launching Kick the Dust, a new £10million pilot programme and promoting it across the UK. We worked with young people to name the programme and have plans in place to recruit new youth ambassadors to work with us during 2017–18. With grants of £500,000 to £1million, Kick the Dust has been designed to increase the ambition of heritage organisations working with young people and to sustain their work in the longer term; it has proved immensely popular with the heritage and youth sectors. Expressions of interest exceeded 200 and first-round applications have been very strong with decisions due to be made in June 2017.

Our long-standing Young Roots programme, which awards smaller grants for youth-focused work, has continued to deliver significant local benefit this year. Since 2002 we have made over 1,820 Young Roots awards and over the last 12 months have invested £3.64million in 97 projects across the UK. Through these projects thousands of young people have learnt about heritage and developed skills and confidence, often while promoting intergenerational relations and demonstrating social action.

The vast majority of the projects we have funded this year, though less targeted than Young Roots, have sought to engage children and young people in some way. Our grantees typically deliver one or more of a range of activities, often employing specialist staff to deliver new work. Typically we have funded: resources appropriate to the learning level of the children; informal activity clubs, new learning spaces and equipment; digital tools; youth-appropriate volunteering opportunities – all designed to make engagement with heritage inspiring and long lasting.

e) Communities

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

Our strategy is focused on making a lasting difference for heritage, people and communities. We encourage grantees to deliver outcomes that help strengthen communities. More specifically, this year we funded partnership bids to put heritage and culture at the heart of local planning and strengthen the public realm through Great Place, a new initiative delivered with Historic England and Arts Council England.

Our mainstream grants programmes, especially Sharing Heritage (£3,000–£10,000) and Our Heritage (£10,000–£100,000), have continued to support a wide range of projects across the UK that have been developed by and benefit local community groups. We know from new evaluation work that our projects deliver strong outcomes for communities and bring people together often from different generations to develop their understanding, discover new talents, become champions for heritage or improve their wellbeing.

Our larger grants make a transformative difference to the public realm. This year we have funded 16 first-round and 13 second-round Parks for People projects, that will breathe new life into our urban parks and encourage people to come together in enhanced environments and support better wildlife outcomes. Through our Heritage Grants programme, urban and rural areas have been improved with a positive impact on quality of life for local communities. Buildings that had fallen into disrepair or were underused have been brought back into use, canals improved and visitor attractions enhanced. As an example, Quay Place in Ipswich opened this year. Formerly a redundant church, it is now a beautifully-restored bustling community hub and home to the mental health charity, MIND.

f) Volunteers

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

Volunteering continues to be encouraged through our outcomes framework and once again this year the vast majority of the projects we funded created new opportunities to volunteer or developed the skills of people in volunteer-led organisations. Whether contributing as trustees, tour guides, classroom support workers or wildlife conservation volunteers, we have continued to celebrate the transformative impact volunteering can have for individuals and the sector through our blogs, evaluation summaries and advocacy campaign, Changing Lives.

Our funding model continues to enable the heritage sector to create high-quality, inclusive volunteering experiences. We fully support the associated costs including training, travel and expenses and, where appropriate, staff posts to coordinate and manage large numbers of volunteers.

g) Skills

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

This year we launched our third round of funding for the Skills for the Future programme and promoted the available £10million with workshops around the UK. A programme focused on addressing heritage skills shortages and diversifying the workforce through delivery of high-quality, yearlong paid placements, Skills for the Future is clearly aligned with the needs of the sector and proved very popular. Applications far outstripped the budget and competition between good quality bids was high. Trustees awarded £10.1million to 18 projects, which will deliver over 400 placements and help contribute to an expertly-trained workforce for the future that is more representative of the UK population.

Meanwhile, grantees funded through the second round of Skills for the Future have continued to deliver high-quality training this year. To date over 1,900 placements have been created through the programme. Over 1,000 trainees have completed their training and continue to report very high rates of satisfaction with their experience. Our latest evaluation of the programme has endorsed the high-quality benefits it achieves. An estimated 75% of trainees have gone on to heritage-related jobs or further training as a result of our investment.

Across all of our projects and programmes this year we have continued to prioritise developing the skills of volunteers, paid staff and new entrants to the heritage workforce. ‘People will have developed skills’ continues to be a weighted outcome for our Heritage Grants programme. We know that the majority of Heritage Grants projects deliver training for volunteers, eg the successful wellbeing-focused project, if: Volunteering for wellbeing, delivered by IWM North and Manchester Museum, with many, including the Canal College project in Scotland, also providing paid apprenticeships.

h) Public value

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

Our National Lottery philosophy is grounded in funding what people value and our assessment of applications takes account of the outcomes that projects will deliver for heritage, people and communities. We give priority to not-for-profit organisations and since 2002 almost half of our funding by value (44%) has gone to voluntary and church organisations.

We provide some support for heritage in private ownership through the Our Heritage programme (grants of £10,000–£100,000) provided that applicants can demonstrate that there is clear public enthusiasm for a project and a genuine need for National Lottery investment. Under our Heritage

Enterprise programme the case for Lottery funding depends on there being a conservation deficit (where a building's current value and the cost of bringing it back into use are greater than its post-project value). These approaches are designed to ensure that public benefits from the projects we invest in will outweigh private gain.

i) Sustainable development

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

We have not changed our approach to sustainable development this year. All applicants submitting applications for funding of more than £2million are covered by our carbon footprinting policy, which requires them to undertake a carbon footprint assessment of the project proposal during the development stage. These assessments have become an integral part of the overall process of project appraisal for more projects during 2016–17 as they reach the second round.

Carbon footprinting is only one part of the assessment we make of the likely environmental impacts of projects. Since 2008 we have required applicants to tell us how they will address a range of resource-use issues including energy efficiency, renewable energy, water, building materials, waste, soil, sustainable timber procurement, biodiversity and visitor transport and have offered guidance to help applicants plan and design their projects. For Heritage Grants decisions made by the Board we provide a summary of how well organisations have addressed these environmental impacts in their applications.

One of the weighted outcomes for grants over £100,000 in our open programmes is that 'environmental impacts will be reduced'.

j) Economic and social deprivation

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

Just over two fifths (43%) of all HLF funding has been committed to the 25% most-deprived areas in each of the four countries of the UK (based on the most recent indices of multiple deprivation for England, Northern Ireland, Scotland and Wales).

We have development teams in our local offices across England, Northern Ireland, Scotland and Wales that encourage good-quality applications from areas that have been less well represented in our funding to date. Our development teams are now working in priority areas identified in SF4.

As a measure of equitable spread of funding we review the number of local authorities that have received significantly less than the UK average in terms of the per capita value of grant awards. The number of local authorities where the value of per capita grant awards is less than a quarter of the UK average is now 51 (13% of the total).

k) Joint working

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

The Culture White Paper created important context for HLF's work in 2016–17. This year we worked closely with DCMS, Arts Council England, Historic England and others to deliver the ambition of the Culture White Paper, published by DCMS in March 2016, which included:

- Great Place Scheme – we partnered with Arts Council England to plan and deliver the scheme with advice from Historic England. Together with Arts Council England we are investing £20million in 16 places in England to put arts, culture and heritage at the heart of local vision and decision making. We expect to award £5million to Great Place schemes in Northern Ireland, Scotland and Wales during 2017–18.

- crowdfunding – we partnered with Nesta, DCMS and Arts Council England to deliver a pilot crowdfunding scheme through Crowdfunder (www.crowdfunder.co.uk) to explore the potential of this approach for diversifying funding in the cultural sector.
- Churches Review – HLF contributed our expertise to this review of the funding, use and sustainability of places of worship. Our chair, Sir Peter Luff, was a member of the panel.
- Museums Review – HLF and Arts Council England each contributed to this review of museums and how they are funded, strategic leadership in the sector and how to build resilience. The review will report in spring 2017.
- tailored review – our tailored review began in February 2017 and is expected to report during 2017–18.

We continued to work with government, Imperial War Museums, the Royal British Legion and many other bodies on activities to mark the centenary of the First World War. With Arts Council England we are jointly funding the UK's major cultural programme, 14–18 NOW. We continue to work in collaboration with the Arts and Humanities Research Council. Its funding enables five university engagement centres to provide expert research support to community groups and cultural organisations undertaking HLF-funded centenary projects. Subjects range from the home front and the experiences of women to medical and technological advances and the contribution of soldiers from the British empire to the war.

As part of SF4 we committed to 'speak up for and demonstrate the value of heritage to modern life' and to create 'more opportunities for dialogue with people who care about heritage'. We took this forward on World Mental Health Day 2016 when HLF held a seminar on inclusive heritage bringing together leaders from health and heritage

organisations to share knowledge and discuss mental health, dementia and heritage. The proceedings have been widely shared on our website.

We have continued our research into heritage, identity and place with the Royal Society of Arts (RSA), holding a roundtable event, Networked Heritage, in November 2016. In the same month, an updated Heritage Index was launched by RSA to help people understand local heritage assets and activities and access relevant data through a single site. The Heritage Index is designed to stimulate debate about what is valued from the past and how that influences the identity of its current residents. This can help a place achieve its aspirations to grow and prosper, socially and economically. The Heritage Index will inform HLF's future approach to funding in places and support the development of our next strategic framework. The Heritage Index is being used as an output indicator for the Culture White Paper, measuring any increase in the number of places making the most of heritage assets.

We launched the *State of UK Public Parks 2016* report at a parliamentary event attended by parliamentarians and representatives from relevant sectors. The report highlights the needs for leadership and active partnerships to sustain public parks in the UK.

Through the Lottery Forum and National Lottery Promotions Unit we have continued to work with other Lottery distributors to ensure continued close coordination of activities and to thank National Lottery players. We continued to work in partnership with the Big Lottery Fund to deliver our Parks for People programme in England and work collaboratively with Historic England, Cadw and Historic Scotland on our GPOW programme

1) Acknowledgement

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

We place importance on the benefits of raising awareness of Lottery funding and require all applicants to acknowledge our grants appropriately both during project delivery and following completion. Our guidance document, *How to acknowledge your grant*, forms part of our standard terms of grant. This year we have increased our focus on this by asking applicants to tell us, as part of their application, how they plan to promote the contribution of the National Lottery to their project.

m) Partnership funding

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

We have not changed our approach to this for SF4. Respondents to our 2011 consultation highlighted anticipated difficulties in raising partnership funding in a period of economic challenge so we have maintained our minimum requirement in our main open programme, Heritage Grants, of 5% in cash or kind for grants up to £1million, and a minimum of 10% on grants over £1million. We review this on an annual basis.

n) Decisions

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

We have not changed our approach to this for SF4.

- a) The projects we support are specific and time-limited. We limit our support to a maximum of five years for projects involving activities.
- b) We seek information from applicants about the extent to which the projects they put forward present a sound case for investment, will deliver outcomes for heritage, people and communities,

are viable and financially sustainable and will provide good value for money. Our assessment may include expert advice on key aspects of the application if needed.

- c) We ask applicants to provide us with information to demonstrate the financial viability of their project, broken down into capital, activity and other costs, and showing what contribution they are proposing to make from their own resources or from grants or donations from other sources. We ask for cash flow and, for larger projects, income and spending projections for 10 years showing how the applicant plans to sustain the project in the long term.

o) Project planning and management

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

- a) For SF4, the application form for our Heritage Grants programme continues to require applicants to set out their second-round applications in a business-plan format with supplementary information contained in an activity plan, cash flow forecasts and an income and spending table. For grants over £2million we ask for a project business plan. We ask conservation projects to include sound plans for maintaining heritage in the long term in order to ensure that it has a viable future and to protect our investment through better long-term management. For projects involving over £200,000 worth of capital works we require a management and maintenance plan detailing how the applicant will meet these extra costs following completion of their project and we publish guidance on how to produce this.

- b) We require all applicants to demonstrate that their projects will be well managed and meet relevant standards regarded as good practice for the area for which the grant was given. For capital projects we include formal review points in our assessment and monitoring processes (corresponding to Royal Institute of British Architects stages). We employ external monitors on all major projects to ensure that projects deliver the approved purposes as contracted, that the risks to HLF are understood and managed, that best practice is achieved in all critical areas and that financial reporting and management are sound and transparent.

Policy directions in relation to Wales

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

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

Directions issued to the trustees of NHMF under section 26(1) and (2) of the National Lottery etc. Act 1993

Welsh ministers, in exercise of their powers conferred by section 26(2) of the National Lottery etc. Act 1993 as transferred by the National Assembly for Wales (Transfer of Functions) Order 1999 and having consulted the trustees of NHMF pursuant to section 26(5), hereby give the following directions to the Fund:

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

2. In exercising any of its functions, the Fund shall take into account the following matters in determining the persons to whom, the purposes for which and the terms and conditions subject to which they may make grants or loans, and the process used to determine what payments to make in distributing any money under section 25(1):
- a) The need to have regard to the interests of Wales as a whole and the interests of different parts of Wales, taking account of the diverse demographic and deprivation patterns in the different parts of Wales, and the desirability of encouraging public service bodies to work together wherever it will result in better outcomes for people and heritage.
 - b) The need to promote and support the Welsh language and reflect the bilingual nature of Wales, including the principle of equality between the English and Welsh languages in the Fund's activities in Wales, in line with the guidance set out in the Welsh Language Board's publication*, and monitored in accordance with agreed procedures.
 - c) The need to ensure an outcome-focused approach, working closely with appropriate partners for the benefit of communities and heritage across Wales, where this is an effective means of achieving the Fund's strategy.
 - d) The need to encourage the conservation, preservation, presentation, promotion and interpretation of all aspects of the heritage of Wales.
 - e) The need to encourage the financial sustainability of the heritage assets of Wales.
 - f) The need to provide opportunities for people, especially young people and the disadvantaged parts of society, to gain the skills required to conserve and preserve the heritage of Wales.
 - g) The need to encourage the use of appropriate professional standards in all projects.
 - h) The need to provide opportunities for people of all ages and all backgrounds, especially children and young people and the disadvantaged parts of our society, to have access to, to learn about, to enjoy and thereby promote the diverse heritages of Wales, where appropriate.

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

Policy directions in relation to Scotland

Directions issued to the trustees of NHMF under section 26(2) as read with section 26A(2)(b) of the National Lottery etc. Act 1993

With the agreement of the culture secretary, the Scottish ministers, in exercise of the powers conferred by section 26(2) as read with section 26A(2)(b) of the National Lottery etc Act 1993**, and having consulted with the trustees of NHMF, hereby give the following directions:

1. These directions apply only to Scotland and relate to any distribution made by the trustees for a purpose which does not concern reserved matters.
2. In determining the persons to whom, purposes for which and the conditions subject to which they apply any money under section 25(4) of the National Lottery etc. Act 1993 in Scotland, the trustees must take into account the following priorities and other matters:
 - a) The need to have regard to the interests of Scotland as a whole and the interests of different parts of Scotland, taking account of the diverse demographic and deprivation patterns in the different parts of Scotland, and the desirability of encouraging public service bodies to work together wherever it will result in better outcomes for people and heritage.
 - b) The need to ensure an outcome-focused approach, working closely with appropriate partners for the benefit of communities and heritage across Scotland, using the following principles:

Engagement

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

Greener

People have better and more sustainable services and environments.

Healthier

People and communities are healthier.

Safer and stronger

Communities work together to tackle inequalities.

Smarter

People having better chances in life.

Solidarity and cohesion

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

Sustainability

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

Wealthier and fairer

A flourishing and sustainable economy.

- c) The need to encourage the conservation, preservation, presentation, promotion and interpretation of, and access to, all aspects of the heritage of Scotland.
- d) The need to promote and support throughout Scotland the cultural significance of the Gaelic and Scots languages.
- e) The need to encourage the financial sustainability of the heritage assets of Scotland including those that are of the national importance to the people of Scotland.
- f) The need to provide opportunities for people, especially young people and the disadvantaged parts of society, to gain the skills required to conserve and preserve the heritage of Scotland.

- g) The need to encourage the use of appropriate professional standards in projects.
- h) The need to provide opportunities for people of all ages and all backgrounds, especially children and young people and the disadvantaged parts of our society, to have access to, to learn about, to enjoy and thereby promote the diverse heritage of Scotland, where appropriate.
- i) The need to encourage heritage projects that sustain a cultural legacy arising from international events in Scotland.
- j) The need to keep Scottish ministers informed of the development of policies, setting priorities and the making of grants in Scotland.

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

Progress on projects over £5million

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

Project title	Region or country	Applicant	Total project cost (£)	Grant amount (£)/ award date
"The Hold" A Suffolk Archives Service for the 21st Century	East of England	Suffolk County Council	20,338,522	538,100 (development) 10,363,700 (delivery) April 2016
A new museum for Blackpool	North West	Blackpool Council Heritage Service	21,030,800	1,240,200 (development) 13,676,800 (delivery) April 2014
Aberdeen Art Gallery: Inspiring Art and Music	Scotland	Aberdeen City Council – Aberdeen Art Gallery and Museums	25,236,063	126,200 (development) 9,997,500 (delivery) September 2014
Alexandra Palace: Reclaiming the People's Palace	London	Alexandra Park and Palace Charitable Trust	26,737,903	844,800 (development) 18,850,000 (delivery) March 2015
Aspire (Constable 'Salisbury Cathedral from the Meadows')	London	Tate Britain	24,723,455	15,800,000 April 2013
Auckland Castle Trust	North East	Auckland Castle Trust	20,520,200	1,000,000 (development) 11,400,000 (delivery) August 2016
Bath Abbey Footprint	South West	Bath Abbey Parochial Church Council	19,441,846	389,000 (development) 10,725,300 (delivery) March 2016
Buxton Crescent & Spa	East Midlands	Derbyshire County Council and High Peak District Council	46,709,827	497,000 (development) 23,853,000 (delivery) July 2002
Cardigan Castle – Unlocking Potential	Wales	Cadwgan BPT	11,583,420	295,500 (development) 6,258,300 (delivery) March 2011
Courtauld Connects	London	Courtauld Institute of Art	33,316,885	650,000 (development) 8,850,000 (delivery) April 2016
Creu Hanes – Making History at St Fagan's	Wales	National Museums of Wales	24,477,415	450,000 (development) 12,547,300 (delivery) July 2012

Project status and % of grant paid to 31 March 2017	Latest report
Development 10	Development phase consultants appointed. Mid development review scheduled for May 2017.
Development 84	This project has now submitted its second round application, which will be assessed for a decision at the June Board meeting.
Delivery 45	Construction is at an advanced stage. The collection is due to be re-installed in the gallery end of September 2017. A greater degree of overlap between the construction contract and the gallery fit-out works is planned to help achieve this.
Delivery 17	Following an unforeseen increase in costs we approved a change in approved purposes so that a reduced scope of work could be delivered with the same grant amount.
Delivery 99	The painting continues to tour. It has just been at Salisbury Museum and from 8 April 2017 will be at National Galleries Scotland until March 2018 when it will return to Tate Britain.
Delivery 7	Progress meeting held in February 2016. Currently at detailed design stage. Capital programme on track. Enabling works complete.
Delivery 3	Project progressing well with some sensitivities relating to proposed works to the floors and pews. The statutory planning process is underway and the programme of works is to take account of handling these sensitivities.
Delivery 35	Project fully funded and work in progress. Work to pump room expected to achieve practical completion in spring 2017. Main contractor is on site. The hotel and visitor centre planned to open in 2019.
Delivery 96	Capital phase complete and snagging resolved. Business consultant appointed to help viability. Grant expiry date extended to 31 December 2017.
Development 44	Development phase progressing well. Development review took place in January 2017 – second round submission anticipated August 2017.
Delivery 75	Grant increase awarded in November 2016. Main build complete. General and exhibition fit-out follows. Activity plan progressing very well. Partial soft openings planned in summer 2017 with main opening 2019.

Progress on projects over £5million

Project title	Region or country	Applicant	Total project cost (£)	Grant amount (£)/ award date
Derby Silk Mill – Museum of Making	East Midlands	Derby Museums Trust	16,999,900	817,300 (development) 8,570,400 (delivery) <i>April 2015</i>
Ditherington Flax Mill Maltings, International Heritage site at the heart of the community	West Midlands	Historic England	30,382,488	465,300 (development) 20,717,500 (delivery) <i>July 2013</i>
Edouard Manet's Portrait of Mademoiselle Claus	South East	Ashmolean Museum of Art & Archaeology	7,929,300	5,999,300 <i>April 2012</i>
First Light at Jodrell Bank	North West	University of Manchester	19,733,200	784,800 (development) 11,362,400 (delivery) <i>April 2015</i>
First World War Centenary Cultural Programme (14–18 NOW)	Cross-territory	Imperial War Museum	50,009,614	10,000,000 <i>November 2013</i>
Hartlebury Castle	West Midlands	Hartlebury Castle Preservation Trust (HCPT)	7,239,665	413,700 (development) 4,975,100 (delivery) <i>September 2014</i>
Hastings Pier	South East	Hastings Pier Charity Ltd	14,248,352	357,400 (development) 12,044,000 (delivery) <i>November 2012</i>
HMS Caroline, Belfast	Northern Ireland	National Museum of the Royal Navy	17,800,732	845,600 (development) 14,240,500 (delivery) <i>September 2014</i>
Inspired by Knole	South East	National Trust	24,181,947	7,750,000 <i>July 2013</i>
Kings and Scribes – The Birth of a Nation	South East	Winchester Cathedral	14,693,759	475,500 (development) 11,017,400 (delivery) <i>July 2013</i>
Kresen Kernow: A new home for the stories of Cornwall	South West	Cornwall Council	18,506,591	386,800 (development) 11,786,500 (delivery) <i>July 2015</i>
Lincoln Castle Revealed	East Midlands	Lincolnshire County Council	19,982,405	227,640 (development) 12,000,000 (delivery) <i>March 2012</i>

Project status and % of grant paid to 31 March 2017	Latest report
Development 63	Project making good progress with second round application expected June 2017.
Delivery 0	A grant increase of £7,894,200 was approved by Board in January 2017. Costs had risen from the impact of a compacted European Regional Development spend timetable, higher tender returns, an upturn in construction prices (structural steelwork) and a loss of some partnership funding. The revised scheme now focuses on the main mill and kiln. Permission to start due to be authorised in April 2017.
Complete 100	Project completed on time. Approved purposes were met and activities appear to have been broadly successful. Full evaluation provided.
Development 15	Design team appointed July 2016 and a reappraisal of the project presented to HLF in January 2017. Development phase extended for further work on costs. Second round submission expected December 2017.
Delivery 48	The 2016 season is now complete and the evaluation report for the second season of commissions is being finalised. A limited amount of activity will take place in 2017 with the main focus being on planning the final season of commissions in 2018 and marking the centenary of the Armistice.
Delivery 39	Former palace of the bishops of Worcester acquired by HCPT on 27 March 2015. Permission to start was authorised in May 2016. Capital works are now underway and interpretation and activity works have commenced.
Delivery 100	The pier with visitor centre and pavilion building opened in May 2016 and has received 400,000 visitors, exceeding expectations. The activity plan programme will be completed in the next 12 months. Operational stage commenced.,
Delivery 62	Grant increase July 2016. Ship works completed in May 2016. Dock and pumphouse refurbishment underway and the ship will reopen to visitors in summer 2017 following completion of all work.
Delivery 48	The café, gatehouse tower, learning centre and conservation studio are all now open. Work continues to the showrooms including conservation of collections and development of new interpretation. The project activity plan is about halfway through delivery.
Delivery 61	The refurbished education centre opened in 2014 and the new learning centre in 2016. Lead replacement works to the cathedral roof are complete and high vault and window works on schedule. Works to the south transept are now underway with exhibition planning well advanced. Successful delivery of the activity plan, increased volunteering opportunities and apprenticeships continue.
Delivery 6	Main contract for capital works on site and proceeding. Learning and activity elements progressing well.
Delivery 76	The castle has been open since March 2015 and continues to exceed visitor targets. The Domesday Book is scheduled for exhibition alongside Magna Carta from May 2017. The completion of snagging to the capital works has been much delayed. Final drawdown expected next financial year.

Progress on projects over £5million

Project title	Region or country	Applicant	Total project cost (£)	Grant amount (£)/ award date
Lincoln Cathedral Connected	East Midlands	Lincoln Cathedral	16,111,266	909,700 (development) 11,456,100 (delivery) <i>January 2017</i>
Lion Salt Works (LSW)	North West	Cheshire West and Chester Local Authority	6,962,250	5,290,000 (delivery) <i>March 2008</i>
Main Line – Bridging the Nation, Leicester	East Midlands	Great Central Railway plc	17,778,197	494,500 (development) 9,504,900 (delivery) <i>April 2015</i>
Mary Rose Museum Project	South East	Mary Rose Trust	36,172,338	26,298,000 <i>June 2009</i>
Medicine Galleries Project	London	Science Museum	20,949,628	400,000 (development) 7,600,000 (delivery) <i>September 2016</i>
Museum of Liverpool	North West	National Museums Liverpool	19,373,633	400,000 (development) 11,000,000 (delivery) <i>July 2008</i>
National Army Museum, Building for the Future	London	National Army Museum	23,250,000	350,000 (development) 11,500,000 (delivery) <i>April 2014</i>
Norwich Castle: Gateway to Medieval England	East of England	Norfolk Museums and Archaeology Service	13,174,200	462,400 (development) 8,756,800 (delivery) <i>April 2016</i>
Plymouth History Centre: Plymouth's role in History and History's role in Plymouth	South West	Plymouth City Council	33,326,900	940,300 (development) 14,833,200 (delivery) <i>July 2016</i>
Remaking Beamish	North East	Beamish Museum	16,699,062	603,800 (development) 10,891,200 (delivery) <i>September 2016</i>
Renaissance of the Cotswold Canals	South West	Stroud District Council	19,013,111	12,716,300 <i>January 2016</i>
Restoration of Dreamland Margate	South East	Dreamland Trust and Thanet District Council	11,102,520	493,500 (development) 5,800,000 (delivery) <i>November 2011</i>
Restoring our Fenland Heritage – the purchase and restoration of the Holmewood Estate	East of England	Wildlife Trust for Bedfordshire, Cambridgeshire and Northamptonshire	16,851,774	67,000 (development) 9,101,700 (delivery) <i>July 2008</i>

Project status and % of grant paid to 31 March 2017	Latest report
Delivery 0	Grant awarded January 2017, permission to start to be approved end March 2017. Archaeological investigations commenced.
Delivery 93.75	LSW successfully opened to the public in June 2015 and operational performance has been good with visitor numbers exceeding expectations at over 12,000. The activity programme is proceeding well and in August it was voted Best Heritage Project in the National Lottery Awards 2016.
Development 3	A first-round pass was awarded in April 2015 to establish a world class railway museum in the Midlands. The project has been delayed by governance changes and a request to extend the development phase is expected. Design work is now making good progress with second round application expected early 2018.
Delivery 100	The final payment was made in October 2016.
Delivery 0	Permission to start submitted November 2016 – final approvals pending to allow capital works to commence.
Delivery 97	Museum opened in 2011. Project complete and closed.
Delivery 90	Redevelopment of the building at Chelsea complete, including visitor welcome, orientation, way-finding, new galleries, enlarged café/restaurant, shop and learning suite. Reopens to the public 30 March 2017.
Development 1	Development phase consultants appointed. Mid-development review scheduled for September 2017.
Delivery 0	Grant awarded July 2016 and applicant started initial preparation works on site at end of January 2017. Project progressing well with additional funding secured (already underwritten by council) and accreditation secured for the record office.
Delivery 0	Lease negotiations ongoing between Durham County Council and Beamish Museum. Permission to start will follow.
Delivery 92	Revised project completion date of December 2017.
Delivery 93	Project is now in final stages. HLF-funded capital works on site are almost finished. New site interpretation is being installed and we are working with a renewed Dreamland Trust to finalise the activities remaining to be delivered.
Delivery 97.89	Long term conservation benefits now visible and strong activity outcomes already delivered. Remaining grant relates to activity and restoration elements only. Project completion scheduled for July 2017.

Progress on projects over £5million

Project title	Region or country	Applicant	Total project cost (£)	Grant amount (£)/ award date
Revealing, Celebrating and Exploring the Heritage of the Royal Academy of Arts	London	Royal Academy of Arts	30,156,969	458,700 (development) 12,274,500 (delivery) <i>September 2013</i>
Revisiting Nottingham Castle – 1000 Years of History	East Midlands	Nottingham City Council	24,750,158	599,500 (development) 13,883,400 (delivery) <i>November 2016</i>
SeaMore: sharing the newest National Collection	South East	National Museum of the Royal Navy	17,569,737	433,500 (development) 13,421,200 (delivery) <i>April 2016</i>
Silverstone Heritage Experience and Collection and Research Centre	East Midlands	Silverstone Heritage Ltd	19,121,014	446,000 (development) 8,664,500 (delivery) <i>November 2016</i>
Sir Anthony Van Dyck: Acquiring and Sharing His Last Self-Portrait	London	National Portrait Gallery	10,343,536	6,343,500 <i>April 2014</i>
The BPMA New Centre Project at Mount Pleasant	London	Postal Heritage Trust	22,064,557	250,000 (development) 5,229,300 (delivery) <i>December 2015</i>
The British Museum World Conservation and Exhibitions Centre	London	British Museum	37,784,645	10,000,000 <i>January 2012</i>
The Burrell	Scotland	Glasgow Life	55,000,000	1,000,000 (development) 14,000,000 (delivery) <i>May 2015</i>
The Canterbury Journey	South East	Canterbury Cathedral	23,150,153	930,400 (development) 12,849,500 (delivery) <i>September 2016</i>
The Collections Discovery Centre at Dorset Museum	South West	Dorset Natural History and Archaeological Society	14,173,837	483,900 (development) 9,908,500 (delivery) <i>April 2015</i>
The Piece Hall – Halifax Heritage	Yorkshire and the Humber	Calderdale Council	10,770,888	239,000 (development) 7,000,000 (delivery) <i>July 2012</i>
The Sill: Unspoilt Landscapes, Inspiring People	North East	Northumberland National Park Authority	13,593,300	399,200 (development) 7,748,000 (delivery) <i>January 2015</i>

Project status and % of grant paid to 31 March 2017	Latest report
Delivery 44	Capital works ongoing – practical completion delayed by three months until January 2018, activities running until December 2018.
Delivery 0	Grant award agreed November 2016, permission to start to be approved end March 2017.
Development 3	Development phase underway with procurement of the design and activity teams in progress.
Delivery 0	Second round decision agreed November 2016, permission to start to be approved end March 2017.
Delivery 97	Painting acquired, currently delivering touring activity programme running until April 2018.
Delivery 72	Practical completion has slipped slightly and is currently scheduled for 28 April 2017 for The Postal Museum and 13 May for Mail Rail. Public opening is proposed for June 2017. Activities to run until December 2018.
Delivery 95	Capital works now complete and the centre opened to acclaim. The remaining project is the England-wide activity plan, which runs to 2018.
Development 69	Project is in development and is expected to submit round two application in June 2017 for a September decision at Board. Architectural and exhibition designs are proceeding well. Further work on activity and business plans is being undertaken at present.
Delivery 2	The delivery grant was awarded in September 2016 and the first phase of capital works has now started on site. Activities including community outreach, volunteering, work with schools and improved access to cathedral collections are well underway with project staff in post and apprentices appointed.
Development 84	Development phase progressing well. Main risks at this stage are for land acquisition and access arrangements for the site once work is underway.
Delivery 83	Practical completion end of March 2017 with fit-out of retail units to be completed by July 2017. Activities are due to commence over the summer.
Delivery 62	Project on programme and due to open summer 2017.

Progress on projects over £5million

Project title	Region or country	Applicant	Total project cost (£)	Grant amount (£)/ award date
The Temperate House Project	London	Royal Botanic Gardens, Kew	34,250,148	890,900 (development) 15,650,600 (delivery) March 2013
Unlocking the Geffrye	London	Geffrye Museum	17,630,233	425,300 (development) 11,941,900 (delivery) March 2017
Unlocking the Severn for People and Wildlife	West Midlands	Severn Rivers Trust	19,432,406	233,100 (development) 10,577,200 (delivery) April 2015
Unlocking the UK's Sound Heritage	London	The British Library	18,631,085	215,900 (development) 9,353,000 (delivery) April 2015
V&A at Dundee	Scotland	Dundee City Council City Development	84,358,156	200,000 (development) 13,900,000 (delivery) January 2014
Windermere Steamboat Museum	North West	Lakeland Arts Trust	16,002,614	494,000 (development) 12,076,400 (delivery) July 2013
York Minster Revealed	Yorkshire and the Humber	Dean and Chapter of York	18,295,155	746,000 (development) 9,797,000 (delivery) September 2010

Project status and % of grant paid to 31 March 2017	Latest report
Delivery 64	The project will conserve the Grade I listed Temperate House, the largest Victorian glasshouse in the world. The project is progressing well with practical completion due December 2017. Activity plan is ongoing.
Delivery 0	Grant awarded March 2017 – permission to start process commenced.
Development 0	This development grant awarded April 2016 to reopen the rivers Severn and Teme to all fish species for migration will be the biggest project of its kind in Europe. Permission to start was agreed in November 2016. Site and survey works for the fish passes are underway. Consultants have been appointed for interpretation and activity works.
Development 100	The grant was awarded in April 2017.
Delivery 38	Construction works are proceeding well. Museum development and operational planning ongoing.
Delivery 62	The project is on site but there have been some delays and opening date may need to be delayed to 2018.
Delivery 85.06	The project successfully completed with a celebration event held on 31 March 2016. The final payment has been made, our records are now closed and the project is recorded as complete.

Employment monitoring

Permanent staff in post as at 1 May 2017

Ethnicity	Total
African	7
Asian Bangladeshi	1
Asian Indian	5
Asian Pakistani	1
Asian and White	2
Black African and White	1
Caribbean	6
Oriental Chinese	2
Other	2
White	298
Grand total	325

Gender as in post 31 March 2017

Gender	%
Female	76%
Male	24%

Section 75, Northern Ireland Act 1998

As equality is central to all our work, we continue to deliver the requirements of the statutory duties under section 75 of the Northern Ireland Act 1998. We submitted our equality annual report to the Equality Commission for Northern Ireland in August 2016. A new equality action plan is being developed that will run through to the end of SF4 in 2019.

Welsh Language Scheme

We are committed to delivering a bilingual service in Wales through the Fund's Welsh Language Scheme, which was published in 2007. The implementation of the scheme is monitored and discussed at regular meetings between HLF's Welsh language officer and the Welsh Language Commissioner's office. In February 2015 we provided a formal response to the Welsh Language Commissioner's consultation. We look forward to receiving further information on the timetable for implementing the Welsh Language Standards and will work closely with colleagues and the Welsh Language Commissioner's office during this process to ensure that the transition from our Welsh Language Scheme to the Welsh Language Standards is as straightforward as possible.



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