

The National Gallery Annual Report and Accounts for the year ended 31 March 2010

MUSEUMS AND GALLERIES ACT 1992

The National Gallery Annual Report and Accounts for the year ended 31 March 2010

Presented to Parliament pursuant to section 9(8) of the Museums and Galleries Act 1992

ORDERED BY THE HOUSE OF COMMONS TO BE PRINTED 14th July 2010

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ISBN: 978 0 10 296657 2

Printed in the UK by The Stationery Office Limited on behalf of the Controller of Her Majesty's Stationery Office

ID: 2370507 07/10 4032

Printed on paper containing 75% recycled fibre content minimum.

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The structure and role of the National Gallery

Full details of the structure and membership of the Board and of the principal officer of the Gallery are published in the Foreword to the Financial Statements.

The National Gallery houses one of the finest collections of Western European paintings in the world.

The collection belongs to the nation and it serves a wide and diverse range of visitors from the UK and overseas. The Gallery's role involves engaging the public in the experience of this great collection. It is open to all, 361 days a year, free of charge.

The entire National Gallery permanent collection and long-term loans are illustrated and described in the collection online:

http://www.nationalgallery.org.uk/collection/default_online.htm

Objectives

Care for the collection

The chief priority of the Gallery is to protect the paintings for future generations.

Access to the collection

The Gallery seeks to attract visitors with little or no previous experience of looking at Old Master paintings and helps those who have difficulty visiting the Gallery. Many of its visitors come from abroad and it serves a larger public through publications and information services, including the website. The Gallery is concerned to foster an interest in Old Master paintings in regional centres.

Interpretation and study of the collection

The Gallery promotes understanding of the styles and techniques of painting and the historical study of pictorial imagery through education and academic programmes.

Enhancement of the collection

The Gallery seeks constantly to improve the ways in which its paintings are presented whilst respecting the needs of the buildings, which are of historic significance. The display is enriched by loans as well as acquisitions.

The Gallery aims to amplify the visitor's experience of the collection through special exhibitions, including some international loan exhibitions, and through special displays. Such displays and exhibitions might feature work in other media and often involve partnerships with other national and international institutions.

Additions to the collection

The Gallery is concerned to ensure that great Old Master paintings threatened with export do not leave the UK, and aims through acquisition to enhance both its own collection and those of other public galleries in the UK.

Review of Activities and Achievements

Care for the collection

Objective¹

The chief priority of the Gallery is to protect the paintings for future generations.

Activities during the year

The Gallery continued its policy of maintaining the highest standards of excellence in preventive and remedial conservation, supported by pre-eminent scientific research. The Gallery undertakes ongoing reviews of measures to ensure the safety of the collection, and continues to implement improvements to the existing disaster planning methodology.

¹ Objective supports the requirement of the Museums and Galleries Act 1992 s2(1)(a) that the Board shall 'care for, preserve and add to the works of art and documents in their collection'.

The restoration of Leonardo's *Virgin of the Rocks* continued, and is expected to be completed in the summer of 2010. Research into its technique and materials was described in papers given at a Leonardo symposium at the Louvre and a conference held at the National Gallery to celebrate the 30th anniversary of the Gallery's Technical Bulletin – where members of the Conservation Department also gave a paper about the recently restored *Pool at Bethesda* by Murillo. The published Bulletin contains further collaborative contributions from the Department on works by Sassetta, Sebastiano, Velazquez and Cuyp.

Research undertaken by Gallery curators, restorers, and scientists during conservation work has helped to attribute two paintings in the collection (NG 296 and NG 2508) to Andrea del Verrocchio. The research is presented on the Gallery website, as is similar collaborative investigation of Van Eyck's portrait of *Margaret, the Artist's Wife* from the Groeningemuseum, Bruges, which was restored and temporarily displayed at the Gallery.

Delaroche's *Charles I Insulted* is a privately owned, long-neglected work which was severely damaged by bomb damage during the war, and was treated in order to allow it to be displayed during the Gallery's Delaroche exhibition. The work included the repair of some 200 tears and re-stretching the previously rolled canvas without resorting to relining, and is a notable example of the Gallery's expertise in the structural treatment of canvas paintings.

The technical examination of paintings has continued to be an important part of the work of the Conservation department. Study of underdrawings in infrared reflectography has continued in the context of ongoing research for the preparation of the Gallery's collection catalogues.

Future developments

It remains a fundamental responsibility of the Gallery to protect the collection for the very long term. To that end the Gallery will continue to maintain the highest standards of excellence in preventive and remedial conservation supported by pre-eminent scientific research.

Additions to the Collection

Objective²

The Gallery is concerned to ensure that great Old Master paintings threatened with export do not leave the UK, and aims through acquisition to enhance both its own collection and those of other public galleries in the UK.

Activities during the year

Following the successful acquisition of Titian's great masterpiece *Diana and Actaeon* jointly with the National Galleries of Scotland, Edinburgh the painting was put on view in London for the first time as part of the permanent collection in a special display in Room 10, highlighting Titian's legacy. It was shown opposite *The Death of Actaeon*, which the artist intended to complete the story but left unfinished on his death in 1576. These 'poems' (as Titian called them) have served as enduring sources of inspiration. To mark this important moment in the Gallery's history, works including those by Constable and Cezanne have been temporarily moved from other parts of the collection to highlight Titian's impact on Western European painting.

The painting is also the focus of a new project which the Gallery is undertaking to increase its engagement with secondary education. A pilot scheme launched in January with 55 schools whose Key Stage 3 students will produce work inspired by the painting. Once the pilot scheme has been assessed the project will be rolled out across the UK. The Gallery is also planning to tour the painting in England and Wales during the first half of 2012.

The Gallery is delighted to have acquired *A Still Life of Flowers in a Wan-Li Vase* by Ambrosius Bosschaert the Elder under the Acquisition in Lieu scheme. Bosschaert's lush bouquets are often flanked by seashells from foreign locales or other costly treasures. The artist drew inspiration from botanical gardens and from exotic wares imported by the Dutch East India Company. This large still life, displayed in Room 17a, is painted on smooth copper, enhancing the extraordinary detail of his brushwork. Its acquisition has transformed the representation of Dutch flower painting in the Gallery.

²Objective supports the requirement of the Museums and Galleries Act 1992 s2(1)(a) that the Board shall 'care for, preserve and add to the works of art and documents in their collection'.

Future developments

The vitality of the collection depends on continuing acquisitions. Over recent years the Gallery has succeeded in many imaginative ways to enhance the collection through acquisitions and loans and the partnership with National Galleries of Scotland to acquire Titian's 'Diana and Actaeon' was one such example.

It is difficult to see how the Gallery will be able to continue to seize such opportunities in future particularly given the challenging economic outlook and cuts in public funding. The Gallery would welcome changes to the existing structure for helping institutions to fund acquisitions, particularly in relation to incentives for individuals and corporations to encourage lifetime giving.

Access to the collection

Objective³

The Gallery seeks to attract visitors with little or no previous experience of looking at Old Master paintings and helps those who have difficulty visiting the Gallery. Many of its visitors come from abroad, and it serves a larger public through publications and information services, including the website. The Gallery is concerned to foster an interest in Old Master paintings in regional centres.

Activities during the year

The Gallery's education programme encourages people of all ages and backgrounds to explore the Gallery's collection. Working with people from 3–90, newcomers through to the cognoscenti, the programme plays a pivotal role in the life of the Gallery and offers many opportunities to explore, learn and engage with the Old Masters collection.

Drawing together all areas of public engagement, the Gallery was re-structured and the new division – Education, Information and Access was created in September.

The Gallery's renowned *Take One Picture* project engaged over 190 schools from across the UK. This year's focus painting was Turner's *Fighting Temeraire*. Having explored the painting, pupils created their own responses which ranged from a sea spirits animation to creative writing on the demise of a ship, batik wall hangings to Toby mugs. The best of this work was displayed in the Gallery to much acclaim.

Encouraged by LankellyChase Foundation, the department developed its successful work in the community by launching *Inside Art* at Feltham Young Offenders Institution. Based in this context, the project has brought together educators from the Gallery with 40 young offenders to explore paintings from the collection and develop creative responses. This challenging and innovative project has culminated in a display of participants' art work which reflects the project's impact on developing new knowledge and skills, using imagination and gaining a better understanding of themselves and others. The project has attracted funding for three years, received positive feedback from visitors and generated considerable media interest.

In June the National Gallery welcomed 250 disabled visitors to the Director's Evening. Hosted by Dr. Nicholas Penny, and developed in collaboration with the charity *Access to Art*, the event was designed to highlight the range of access facilities and events on offer. The range of activities included the lowering of three iconic paintings to offer a positive experience to wheelchair users.

The year also saw the re-launch of the website which has attracted over 2.5 million visitors since it went live – up 7% on last year. The LoveArt i-phone application has been downloaded over 300,000 times and our podcast was the third most popular in the iTunes chart for visual arts.

A National Programme Manager was appointed during the year to co-ordinate the Gallery's national programmes, from exhibitions to education and outreach programmes, and from academic partnerships to a Subject Specialist Network.

³ Objective supports the requirement of the Museums and Galleries Act 1992 s2(1)(b) and (d) that the Board shall 'secure that the works of art are exhibited to the public' and 'generally promote the public's enjoyment and understanding of painting and other fine art both by means of the Board's collection and by such other means as they consider appropriate'.

Future developments

The creation of the new division has opened up new opportunities for integrated working across the Gallery. The focus for the first half of the new fiscal year is to undertake a wide strategy review exercise – encompassing education, interpretation, digital technology, visitor experience and disability audit. Including wide internal and external consultation, this will give the Gallery the opportunity to articulate a new vision for learning and participation and re-define our priorities.

Enhancement of the collection⁴*Objective*

The Gallery seeks constantly to improve the ways in which its paintings are presented whilst respecting the needs of the buildings, which are of historic significance. The display is enriched by loans as well as acquisitions.

The Gallery aims to amplify the visitor's experience of the collection through special exhibitions, including some international loan exhibitions, and through special displays. Such displays and exhibitions might feature work in other media and often involve partnerships with other national and international institutions.

Capital projects during the year included the refurbishment of the lower floor galleries, providing a new ground floor space for special displays and exhibitions. This new exhibition space will enable the Gallery to make more use of paintings in reserve, and to foster academic links with University departments throughout the UK. It will also function as a showcase for the cross-curricular work the Gallery carries out with schools all over the UK, highlighting the importance of that work and providing a focus for schools to visit and be inspired by seeing their work on display.

Exhibitions

Nine temporary exhibitions were open during the year, as set out below:

Venue	Exhibition	Attendance to 31 March 2010
Sainsbury Wing	<i>Picasso: Challenging the Past</i> (25 February – 7 June 2009) (£)	204,862
Sainsbury Wing	<i>Corot to Monet. A Fresh Look at Landscape from the Collection</i>	183,433
Sainsbury Wing	<i>The Sacred Made Real</i> (£)	99,669
Sainsbury Wing	<i>Painting History: Delaroche and Lady Jane Grey</i> (24 February – 23 May 2010) (£)	10,327
Sunley Room	<i>Kienholz. The Hoerengracht</i>	223,183
Sunley Room	<i>Christen Købke: Danish Master of Light</i> (17 March – 13 June 2010)	23,632
Room 1	<i>Picasso's Prints: Challenging the Past</i> (25 February 2009 – 7 June 2009)	227,831
Room 1	<i>Titian's Triumph of Love</i>	53,904
Room 1	<i>The Making of a Spanish Polychrome Sculpture</i>	76,925
Room 1	<i>A Masterpiece Recovered: Delaroche's Charles I Insulted</i>	41,954

(£) denotes ticketed exhibition

The hugely popular exhibition *Picasso: Challenging the Past* examined the paintings of Pablo Picasso in relation to the European painting tradition that, throughout his life, served as a catalyst and provocation to his art.

Corot to Monet. A Fresh Look at Landscape in the Collection, was the first of a new series of free summer exhibitions to concentrate on the collection. Aiming to chart the development in landscape painting from the plein-air oil sketch of the late eighteenth century through to early Impressionism, extensive use was made both of the Gere collection of oil sketches, on loan to the Gallery, and the collection of pre-Impressionist, predominantly Barbizon landscapes, which normally hang in the lower floor galleries. In addition, a study room enabled visitors to study the paintings in greater depth, especially a number by Corot, where full catalogue entries were provided. The exhibition proved to be a great success with the public, with almost double the expected number of visitors.

⁴Objective supports the requirement of the Museums and Galleries Act 1992 s2(1)(b) and (d) that the Board shall 'secure that the works of art are exhibited to the public' and 'generally promote the public's enjoyment and understanding of painting and other fine art both by means of the Board's collection and by such other means as they consider appropriate'.

The Sacred Made Real exhibition presented a landmark reappraisal of religious art of the Spanish Golden Age. It introduced polychrome sculpture, an art form largely unknown outside Spain, and demonstrated its importance to the development of realism in the paintings of well-known artists such as Velazquez and Zurbaran. Despite the quintessentially Catholic subject matter and the graphic, often gory nature of the works, the sparse installation which removed all suggestion of their original context, attracted a wide and diverse audience that significantly exceeded the expected attendance levels.

Painting History: Delaroche and Lady Jane Grey was conceived as an in-focus exhibition around one of the National Gallery's best-loved pictures, Paul Delaroche's *Execution of Lady Jane Grey*. Profoundly original, the painting created a sensation when exhibited at the Salon of 1834, as it still does now. The objective of the exhibition was to examine the reasons for this extraordinary popularity by looking at the painting in context and presenting the latest research on the artist along with prints and preliminary drawings.

The *Kienholz* exhibition attracted enormous press interest, both at the annual press launch and at the time of the opening itself. As a result, over 220,000 visitors attended the exhibition, which was conceived both to show how high quality contemporary art can be related to historical art and to demonstrate that the controversial subject is, in fact, deeply rooted in the Gallery's collection.

Christen Købke (c. 1810–1848) was arguably the greatest talent of Denmark's 'Golden Age', the period of the nation's supreme artistic achievement. The exhibition aimed to introduce a much wider British and international audience, largely unfamiliar with him, to Købke's pre-eminence in Danish visual culture.

The exhibition of Titian's *Triumph of Love* gave visitors to the National Gallery the chance to see this delightful newly discovered and restored painting before it was placed on display at the Ashmolean Museum, Oxford.

The Making of a Spanish Polychrome Sculpture complemented the Sainsbury Wing show *The Sacred Made Real*, focusing on the making of Francisco Antonio Gijon's sculpture of *Saint John of the Cross* from the National Gallery of Art, Washington. That Institution's sculpture conservation team conducted new research that explored the technical aspects of making a polychromed sculpture. The Gallery also commissioned a young Sevillian sculptor, Dario Fernandez, to make a bust copy of the *Saint John of the Cross* which he left partially finished so that we could see the different stages of production.

National programmes

Subsequent to its exhibition in the Sunley Room at the National Gallery, *Sisley in England and Wales* was displayed at the Amgueddfa Cymru – National Museum Wales from 07 Mar–14 Jun 2009.

International programmes

The Sacred Made Real: Spanish Painting and Sculpture 1600–1700, was organised by both the National Gallery, London and the National Gallery of Art, Washington. As such, *The Sacred Made Real* is currently on display at the National Gallery of Art (Washington DC) where it runs from the 28 Feb–31 May 2010. The Gallery is grateful for the generous support received towards this exhibition by the American Friends of the National Gallery as a result of a generous grant from Howard and Roberta Ahmanson.

Future developments

The presentation of the collection in Trafalgar Square remains the centrepiece of the Gallery's work.

The Building:

The Gallery will continue with its rolling programme of complete room refurbishments, with rooms 6 and 8 being refurbished over the Spring/Summer and rooms 5 and 10 during the Autumn/Winter.

Lighting trials will be undertaken to establish the most appropriate lighting system for the Gallery. These trials will take into consideration the vulnerable nature of the collection and balance this against energy use and sustainability.

We will continue investigating how best to respond to:

- the need to improve and enhance the display and exhibition space alongside an expanding programme of research, education and outreach activities financed by increased income generation to fund this growth in activity; and
- the challenges of receiving many more visitors than the building was designed to accommodate.

Exhibitions

During 2010/11 the Gallery will mount a range of important international and national exhibitions.

The free summer exhibition in the Sainsbury Wing, *Close Examination: Fakes, Mistakes and Discoveries*, will explore the contribution of scientific examination, conservation, and art historical research to the appreciation and better understanding of paintings in the National Gallery's collection. Showing in the Sunley Room from July to October 2010 will be *Frederick Cayley Robinson: Acts of Mercy*. Following later in the year will be *Venice: Canaletto and His Rivals* (13 Oct 2010–16 Jan 2011), an exhibition which will present the finest assembly of Venetian views by all the major, and a few of the less well known, practitioners of the genre to be held since the legendary show in Venice in 1967. This will be the first survey of the subject organised in the UK.

Interpretation and study of the collection*Objective⁵*

The Gallery promotes understanding of the styles and techniques of painting and the historical study of pictorial imagery through education and academic programmes.

The curatorial, scientific and conservation departments provide expert advice to government agencies and to other galleries and cultural institutions in the regions and overseas.

Activities during the year

The Gallery continued to extend its national and international research collaborations and during the year received recognition as an Independent Research Organisation by both the Arts and Humanities Research Council and the Engineering and Physical Sciences Research Council. It is the first museum to be recognised by both councils.

Curatorial, Scientific and Conservation Departments continue to collaborate to produce the studies published in the *National Gallery Technical Bulletin* and elsewhere, which derive not only from the examinations of individual paintings carried out for the cataloguing programme, but also from research for exhibitions and other projects, as well as the close examination of new acquisitions.

The Scientific Department has been very active in research during the year, both in collaborative projects within and outside the Gallery and in representing the Gallery's scientific work in the international museum and conservation communities. Core research on the collection involving analytical study of paintings is carried out jointly with curators for the programme of systematic catalogues, for exhibitions and other publications and with conservators as a contribution to best practice in the treatment of paintings. This year has seen considerable new technical research on Italian 14th-century paintings for a revised Schools

⁵Objective supports the requirement of the Museums and Galleries Act 1992 s2(1)(c) and (d) that the Board shall 'secure that the works of art and documents are available to persons seeking to inspect them in connection with study and research' and 'generally promote the public's enjoyment and understanding of painting and other fine art both by means of the Board's collection and by such other means as they consider appropriate'

Catalogue. There is also a long-term interest in the history and technology of traditional painting materials, their behaviour and the factors involved in the deterioration of these materials. Research and development work in digital imaging and colour science remains a continuing activity as well as new methods of recording and archiving visual information, and delivering images and data over the Internet. Work on reducing the Gallery's energy consumption is carried out with the Building Department.

Members of the Scientific Department publish regularly in outside peer-reviewed journals and conference proceedings and in the annual *National Gallery Technical Bulletin*. The publication of the 30th volume of this journal was celebrated by a three-day international conference in September 2009 under the general theme: 'Studying Old Master Paintings: Technology and Practice', the post-prints of which are planned to be published at the end of 2010. Plans are underway to convert the *Technical Bulletin* to a web-based annual electronic publication to widen access; the first electronic edition will appear in October 2010. The publication will remain subject to peer review.

Outside the Gallery, technical examination of paintings in public collections, in support of their conservation, has included work on Titian's *Triumph of Love* acquired by the Ashmolean Museum, and Jan van Eyck's *Portrait of Margaret Van Eyck* for the Groeningemuseum, Bruges.

The scientific work of the Gallery is reported each year to a panel of eminent scientists constituted as the National Gallery Scientific Consultative Group (NGSCG), chaired by a Trustee, Professor Julia Higgins. On her retirement as a Trustee, her position will be assumed Professor Anya Hurlbert of Newcastle University. The purpose of the Scientific Group is to gain feedback from outside expert assessors, gather opinions on the quality and direction of science at the Gallery and to provide input for the continued development of a research strategy.

The NGSCG has shown particular interest in the 'Mellon Raphael Resource' a digital documentation project funded by The Andrew W. Mellon Foundation (New York), to develop a 'pilot project' in digital documentation of paintings, with a particular emphasis on technical and conservation-based information. The Gallery offered Raphael as a subject for this experimental electronic database, since conventional documentation was very extensive for the artist, and potentially in demand by scholars around the world. The 'Raphael Research Resource' was launched on the Gallery's website in the autumn of 2009 and is available to any enquirer to consult without charge.

The Gallery is involved in a number of significant collaborative research projects with other institutions. The Scientific Department successfully brought to a close in May 2009 its involvement in the 6th Framework EU-funded EU-ARTECH consortium project; this has been replaced by a new four-year 7th Framework project, known as CHARISMA, also devoted to promoting best practice in conservation science in Europe and fostering joint research in this area. The new consortium consists of 20 members spread across the European Union and includes the Gallery's Scientific Department, and sister department at the British Museum. New joint scientific research projects planned for 2010 include collaborations with Nottingham Trent and Southampton Universities, English Heritage, Imperial College (London) and the British Museum.

The Scientific Department has been fortunate in 2009–2010 in being able to replace major pieces of equipment in the laboratory. This equipment has been proving its worth during the year in application to a major research project to analyse a wide range of paintings from the collection, the results of which will be presented in a free exhibition *Close Examination: Fakes, Mistakes and Discoveries*.

Future developments

The Gallery will continue to develop links with other collections both internationally and throughout the UK, to reinforce its position as a leading institution in its field.

Capitalising on the significance of our collection, and the expertise and experience of our staff is of key importance, and maintaining links with other institutions within the UK and overseas is vital to ensure that we are able to show and develop our collection in ways that are attractive in an increasingly competitive environment.

Fund Raising and Resources

The largest source of funds for the Gallery remains government Grant in Aid. This year, Grant in Aid received from the Department for Culture, Media and Sport ("DCMS") totalled £27,287,000, and included a ring-fenced capital grant of £3,750,000.

Private income continues to be vital to the future well being of the Gallery. Many of the Gallery's programmes, from exhibitions to outreach work, are only possible as a result of support from private individuals, trusts and foundations and the corporate sector.

Individuals provide much needed regular support to ensure the Gallery continues to offer the top quality programmes, exhibitions and services expected by our visitors. This year individual donors provided key assistance to several of the Gallery's major exhibitions, in particular *The Sacred Made Real, Spanish Painting & Sculpture 1600–1700*, a *Spanish Polychrome Sculpture* (Room 1 exhibition) and *Kienholz The Hoerengracht*. Individual support also provided core funding for curatorial work through supporting curatorial posts, academic colloquia and the publication of catalogues. We also had significant support for the Framing department with the acquisition of several frames being made possible by individual donations. Generous individuals also contributed to the Gallery's Education department programmes, enabling both students and adult learners to have the opportunity to take part in the Gallery's programmes.

The Gallery greatly benefits from grants made by charitable trusts and foundations, and exhibitions, education, library and curatorial projects received invaluable support during the year. The lower galleries renovation was boosted by a substantial contribution from the DCMS/Wolfson Museums and Galleries Improvement Fund, a grant-maker that has generously supported many of the Gallery's capital projects in the past. The work of the Education department attracted a number of new pledges of support from trusts and foundations, in particular from The John Ellerman Foundation for the outreach programme and projects with older people. The department's work with trainee teachers also continued to benefit from the support of DCMS Strategic Commissioning. There were contributions to the Library's conservation project from The Mercers Company and the Aurelius Charitable Trust, and grants towards exhibitions and exhibition catalogues from Outset and The Henry Moore Foundation. The Curatorial Department received grants towards two curatorial assistant posts from The Pidem Fund and The Dorset Foundation.

The Gallery continued to develop its established work with the corporate sector, including its major partnership with Credit Suisse which includes the sponsorship of a Sainsbury Wing exhibition each year. The Gallery's corporate membership programme has remained reasonably robust despite the economic downturn. The funds generated by the programme enable the Gallery to achieve a wide range of activities and projects which would otherwise not be possible.

The Gallery owes an enormous debt of gratitude to all of the private donors who have supported projects in this period. We would like to thank all those who have given so generously.

Financial Commentary

In accordance with the Government Financial Reporting Manual (FRM), additions to the collection since 1 April 2001 are capitalised and recognised in the Balance Sheet, at the cost or value of the acquisition, where such a cost or value is reasonably obtainable. Such items are not depreciated or revalued as a matter of routine.

Works of art donated by third parties, either by gift of the asset or by way of funds for the asset, are capitalised at current value on receipt. Donated collection assets are not depreciated or revalued as a matter of routine. In the current year, heritage asset additions totalled £1.8m representing principally the capitalisation of Bosschaert's *A Still Life of Flowers* at a value of £1.7m.

The Gallery's SOFA is set out on page 26 of this document. Incoming resources before transfers, notional costs and revaluations for 2009/10 amounted to £38.1 million (2008/09: £67.1 million); resources expended amounted to £30.8 million (2008/09: £30.7 million), resulting in net incoming resources (before unrealised investment gains and revaluations) of £7.3 million (2008/09: £36.4 million), of which £6.5 million (2008/09: £35.3 million) represents donations to the collection and restricted and designated funds received for future acquisitions.

Incoming resources from generated funds for the year totalled £36.2 million (2008/09: £65.4m). This apparent significant drop in income is due to the accounting treatment relating to the acquisition of Titian's *Diana & Actaeon* in 2008/09. The figure includes incoming resources relating to picture acquisitions of £4.6 million, as well as government Grant in Aid and other donations, legacies and income from corporate supporters. Incoming resources from charitable activities for the year totalled £1.8 million in line with 2008/09 (£1.7 million).

The Gallery's total expenditure for 2009/10 was £30.8 million which was broadly in line with expenditure incurred in 2008/9 of £30.7m.

The net movement in funds for 2009/10 amounted to £4.9 million (2008/09: £11.0 million). The net movement includes any gain or loss on the value of the Gallery's land and buildings, any gain or loss on its investments and the value of donated assets capitalised as collection acquisitions. This year the movement includes a loss on revaluation of £7.2 million and investment gains of £4.7 million. It also includes £6.5 million representing donations to the collection, picture acquisitions and restricted and designated funds for acquisitions.

Full details of risk management at the National Gallery and the Gallery's investment and reserves policies are disclosed in the Foreword to the Financial Statements.

Details of the treatment of pension liabilities are disclosed in the Remuneration Report and the effect of the revaluation of land, buildings, and plant and machinery is disclosed in note 10. The National Gallery's auditors neither undertook nor received any remuneration for non-audit work during the year.

The Gallery's contribution to DCMS' performance indicators

Specific information relevant to the Gallery's contribution to DCMS' performance indicators for 2009/10 as set out in the Funding Agreement agreed with DCMS:

	Performance in 2009/10	Performance in 2008/09
1. Number of visits to the Gallery (excluding virtual visitors)	4.7m	4.4m
2. Number of unique users visiting the website	4.0m	5.6m
3. Number of visits by children under 16	0.4m	0.5m
4. Number of UK adults aged 16 and over from NS-SEC groups 5-8 visiting the Gallery ⁶	0.4m	0.3m
5. Number of visits by UK adult visitors aged 16 and over from an ethnic minority background ⁶	0.3m	0.3m
6. Number of visits by UK adult visitors aged 16 and over who consider themselves to have a limiting long-term illness, disability or infirmity ⁶	0.2m	0.2m
7. Number of overseas visits ⁶	1.6m	1.5m
8. Number of children involved in on and offsite educational programmes	0.2m	0.1m
9. Number of adult learners involved in on and offsite educational programmes	0.1m	0.1m
10. % of visitors who would recommend a visit ⁶	99%	99%
11. Number of UK loan venues	16	20
12. Number of peer reviewed publications	36	23
13. % of visitors who are satisfied or very satisfied with their visit ⁶	98%	99%
14. Number of new initiatives and services designed to improve access for elderly visitors (those aged 60 and above)	1	3
15. Self-generated income (admissions, trading and fund raising) ⁷	£11m	£41m

⁶The outturn figures given for these measures are estimated based on total visitor numbers and the latest demographic research, which was completed in March 2010.

⁷The 2008/09 figure represents income generated including the value of donated pictures.

Foreword

Legal and Administrative

The Gallery is governed by the Museums and Galleries Act 1992, under which the Board of Trustees was given corporate status. The Charities Act 1993 confirmed the Gallery's charitable status and its exemption from the need to register with the Charity Commission. Both acts can be viewed at www.opsi.gov.uk.

These accounts have been prepared in a form directed by the Secretary of State with the consent of Treasury in accordance with Sections 9(4) and 9(5) of the Museums and Galleries Act 1992, the Government's Financial Reporting Manual (2009/10) and the Statement of Recommended Practice "Accounting and Reporting by Charities" (2005).

The Gallery is governed by a Board of Trustees. The establishment, constitution, functions and property etc. of the Board of Trustees can be found in Section 1 to the Museums and Galleries Act 1992. The general functions of the Board of Trustees can be found in Section 2 to the Museums and Galleries Act 1992. A Register of Trustees' Interests is maintained and is available for review on application to the Director's Office.

The following is a list of the Trustees of the National Gallery during the year to 31 March 2010.

Mr Mark Getty (Chairman)
Professor Julia Higgins (retired 5 April 2010)
Lord Kerr of Kinlochard (retired 28 February 2010)
Mr James Fenton (retired 16 September 2009)
Mr John Lessore
Mr Simon Burke
Lady Normanby
Professor David Ekserdijan (reappointed 30 September 2009)
Ms Patricia Lankester
Lady Heseltine
Mr Michael Hintze
Ms Caroline Thomson
Ms Hannah Rothschild
Mr Gautam Dalal
Professor Anya Hurlbert (appointed 8 March 2010)

Trustees are appointed by the Prime Minister and are normally appointed for a term of four years with the possibility of renewal. In addition, the Tate appoints a Trustee. Appointment dates are detailed on the National Gallery's website.

The Chairman of the Board is responsible for approving adequate arrangements for induction and training for new Board members. New Trustees are:

- given the Trustee Handbook, which sets out the structure, role and responsibilities of the Board, and includes detailed information about standards, accountability and governance;
- given copies of the latest Corporate Plan, Funding Agreement, Annual Review and Financial Statements; and
- given the equivalent of about 2 days' worth of induction, meeting members of Gallery staff in different departments to hear about their work.

The Trust Funds of the National Gallery are monitored by a sub-committee of the Board called the Trust Funds Investment Committee. This committee meets at least once a year to review fund performance in discussion with the fund managers. Its members are:

Mr Hugues Lepic (Chairman from June 2009 and independent member)
Mr Mark Getty (Chairman until June 2009)
Dr David Landau (from June 2009 and independent member)

The Finance Committee aims to meet at least three times a year to discuss the financial management of the Gallery and other matters arising. Its members are:

Mr Gautam Dalal (Chairman)
 Mr Mark Getty
 Sir Colin Southgate (independent member)
 Mr Nick Land (independent member)

The Audit Committee aims to meet at least three times a year to adopt the accounts; meet the auditors; set risk management standards and the degree of risk aversion for the Gallery; review the major risks to the Gallery; and discuss internal and external audit matters. Its members are:

Mr Gautam Dalal (Chairman)
 Mr Mark Getty
 Sir Colin Southgate (independent member)
 Mr Nick Land (independent member)

The National Gallery's staff defined as directors of functional areas and other staff at salary band 1 are considered senior managers. The individuals defined as senior managers are:

Nicholas Penny
 Jillian Barker
 Susan Foister
 David Jaffe
 Larry Keith
 Gregory Perry
 Ashok Roy
 Sarah Ward
 Martin Wyld

The Accounting Officer as at 31 March 2010 is Dr Nicholas Penny, Director of the National Gallery.

The principal address of the charity is:

The National Gallery
 Trafalgar Square
 London, WC2N 5DN

The National Gallery website address is: www.nationalgallery.org.uk.

Advisers

Banking Services:	The Paymaster General Sutherland House Russell Way Crawley West Sussex RH10 1UH	Coutts & Co. 440 Strand London WC2R 0QS
Auditors:	The Comptroller and Auditor General National Audit Office 157 Buckingham Palace Road Victoria London SW1W 9SP	
Solicitors:	Farrer & Co 66 Lincoln's Inn Fields London, WC2A 3LH	Various other solicitors are used as required.
Investment Managers:	BlackRock Investment Management (UK) Ltd 33 King William Street London, EC4R 9AS	

History

The National Gallery was established in 1824 when Parliament voted £60,000 for the purchase, presentation and display of a group of 38 paintings, part of the collection of the late John Julius Angerstein.

Organisation

The Gallery is a Non-Departmental Public Body, whose sponsor department is the Department for Culture, Media and Sport.

The Director of the National Gallery is also the Accounting Officer appointed by the Department for Culture, Media and Sport.

Senior management take decisions through the mechanism of an Executive Committee, whose members are responsible for the main departments in the Gallery. This committee was formalised during the year replacing the previous structure of a larger management committee. Management communicates with staff through meetings, the intranet, e-mail and staff notices. The three unions representing a number of members of staff meet regularly with senior management.

Review of Activities, Achievements and Results

A detailed review of the Gallery's activities, achievements and results during the year, as well as information about its financial position at the year-end and planned future developments, is presented in the Annual Report.

Changes in Fixed Assets

The movement in fixed assets during the year is set out in note 10 to the financial statements.

The Trust Funds of the National Gallery

The Trust Funds of the National Gallery are made up of a number of bequests, which were constituted as a pool for investment purposes by a scheme approved by the Secretary of State for Education and Science in 1972. The Trust Funds are controlled by the National Gallery Trustees and included within these financial statements.

Payment Policy

The Gallery aims to settle all bills either within the period stated by the supplier or within 30 days. Sample testing indicates that approximately 89% (2008/09: 90%) of all bills are settled within 30 days and the bulk of the remainder are either disputed or have extended credit terms.

Equal Opportunities

The Gallery is committed to equal opportunities for all job applicants and employees. The Gallery's policy is that no applicant or employee should receive less favourable treatment than another on grounds of gender, sexual orientation, age, marital or family status, civil partnership status, race, colour, nationality, ethnic or national origins or religion or similar belief, disability, trade union membership or any other condition or requirement which cannot be shown to be justifiable.

This principle applies both to direct discrimination and to indirect discrimination (i.e. the Gallery is committed not only to avoiding direct discrimination but also to avoiding practices which have the incidental or accidental effect of discriminating unfairly against particular groups).

The Gallery recognises that the principle of equal opportunity applies to all recruitment; to all terms and conditions of service, including pay, hours of work, leave, retirement and pensions; and to human resources management and development including staff performance reviews, training and promotion.

The Gallery aims, in this way, to provide a working environment which is free from unfair discrimination and from harassment.

The Gallery's equal opportunity policy is drawn to the attention of all employees and job-applicants through the application process, and is disclosed in the Staff Handbook.

Health & Safety

The Trustees of the National Gallery, through the offices of the Director, acknowledge their responsibility for, and their commitment to, a management policy that ensures matters relating to health and safety for visitors, staff, those working on a self-employed and agency contract basis and contractors will receive due priority for action at all times.

Responsibility also lies with individual members of staff, their representative unions, those working on a self-employed and agency contract basis, and contractors to give their full attention and co-operation to the implementation of this policy so that the Gallery can provide a safe and healthy environment at all times. The Gallery employs a Health and Safety Adviser.

The Gallery's employee assistance programme provides confidential counselling, practical support, advice and information, aimed at helping staff to come to terms with personal and family or work related problems. The service is available to all employees and their immediate dependents, 24 hours a day, 365 days a year; access is via a free telephone line.

Sickness Absence Management

The average number of days of employee absence due to sickness was 8.4 days (2008/09: 8.5 days). Excluding long term sickness, the average number of days of absence was 4.6 days (2008/09: 4.5 days).

Sustainability Policy

The National Gallery is committed to integrating environmental considerations into its activities and working towards the goals of sustainable development and pollution prevention through a programme of continuous environmental improvement.

The Gallery adopts the best environmental practices, wherever practicable, in the development, use and management of our buildings and in purchasing services and supplies. Where the Gallery has no direct control of resources it seeks to influence those who have.

The Gallery gives full consideration to environmental matters when managing operations, altering the building and in reaching housekeeping decisions. Though much of the responsibility for these decisions will fall to senior management, all National Gallery staff are encouraged to play a role in protecting the environment by making the most efficient use of resources within their control.

Investment Policy

The Gallery's has investments representing private funds, including donations and bequests, held for future expenditure in accordance with the Reserves Policy. All the Gallery's investments are held at institutions of the highest quality. Funds may only be placed with a new institution with the approval of the Finance or Trust Funds Investment Committees.

Bequests are held within the Trust Fund. Funds in the Trust Fund are invested and monitored by a Committee ("the Trust Funds Investment Committee") and managed by external investment managers. Investment managers are appointed by the Trust Funds Investment Committee, and the contract is reviewed at least every five years. Investment strategy is also formally reviewed at least every five years and was formally reviewed in 2010. As a result of this review members of the Investment Committee agreed to maintain the current long-term investment strategy as detailed below. Members of the Investment Committee have met several times informally to discuss investment policy over the last year and actively keep the management of investments under review.

Trust Funds are invested in a mixed portfolio, with a benchmark profile of 25% of the value to be retained in cash or cash equivalents; 45% in UK equities; 15% in overseas equities and the remaining 15% in corporate and government bonds and other fixed interest securities.

Investments excluding cash are held principally in three funds managed by BlackRock, the objectives of which are, respectively:

- to achieve long term capital growth by investment predominantly in UK equities while at the same time providing an increasing income over the medium to long term to combat the effects of inflation;
- to provide capital growth and limited income over the long-term by investing in listed international equity investments; and

- to provide a high level of income from fixed interest securities.

The overall investment objective is to maximize long-term total return.

Each fund is assessed against appropriate benchmarks, including the FTSE all-share index, the FTSE world (ex UK) index and the FTSE Government all stocks index. During 2009-10 the overall benchmark return for investments was 39.4% and the fund actually achieved a return of 38.7%. Despite falling a little below benchmark, committee members are satisfied that this represents a good performance given market conditions.

The Gallery holds other private funds in money market deposits and seeks to earn the highest possible rates of interest subject to other constraints set out in this policy and the policy on reserves given below. Performance is measured regularly against the UK bank base rate and in 2009/10 the return earned was 0.65% compared with the average base rate of 0.5%.

The Gallery does not usually hold any derivative instruments, options, futures, forward contracts or foreign currency, except where there is a specific need for such instrument or where it is held as part of an investment strategy as determined by the Trust Funds Investment Committee. The Gallery held no such instruments at 31 March 2010.

Details on the movement of investments during the year can be found in notes 11 and 16.

Reserves Policy

The Trustees have reviewed the reserves of the Gallery and concluded that the Gallery should seek to maintain unrestricted general funds not committed or invested in tangible fixed assets at a level equivalent to six months' worth of non-guaranteed income, as a safeguard against volatile and unpredictable income streams. However, given that Grant in Aid is not drawn down in advance of need and that significant funds may be required for picture payment, the level of undesignated general reserves may fluctuate outside this range. It is the trustees' aspiration to build the level of unrestricted general funds given the uncertainty over future levels of public and private funding.

The Trustees' Audit Committee reviews the policy on reserves annually, and the last review took place in March 2010 at which the Committee agreed the wording of this policy including their stated aspiration to build general reserves. Grant in Aid should not be held in reserves and will therefore normally be expended in the month it is received.

The calculation of the reserves is £353.8 million. A breakdown of these is shown in the balance sheet and in the statement of funds (note 16). Most of the funds (£200.6 million) are represented by the Gallery's land and buildings, being the Trafalgar Square site, plant and machinery and equipment. These funds are therefore effectively inalienable. A further £127.2 million is represented by the value at the date of acquisition of donations to the collection and pictures acquired since 1 April 2001, and restricted funds for future acquisitions.

Of the remaining £26 million, £5.2 million is in permanent endowments (where the capital cannot be touched) and £3.8 million represents other restricted funds. A further £14.9 million is private income (mainly from bequests), which, because of the nature of the income, the Trustees have designated for picture purchases. The remaining balance of £2.3m represents undesignated general funds of private income. Non-guaranteed income budgeted for 2010/11 is in the region of £4.5m, and includes income from exhibition admissions, corporate sponsorship and donations. The level of undesignated general reserves at 31st March 2010 therefore represents around 6 month's worth of that income and is in accordance with the stated policy.

Risk Management

The National Gallery recognises that the effective management of risk and uncertainty is core to its ability to achieve its objectives.

Procedures

The Internal Controls Committee identifies, controls and monitors risk within the National Gallery and proposes the framework for its control. Risk is controlled through:

- **Elimination** – by not engaging or continuing with the risk-bearing activity;
- **Transference** – by sharing or passing the risk onto a third party either through partner / contract agreements or through insurance;
- **Mitigation** – by introducing appropriate and cost effective controls to manage the risk, apportioning responsibility for managing the risk to the relevant budget holder(s) and monitoring the controls;
- **Acceptance** – in remaining cases, by acknowledging and accepting that the risk is part of the Gallery's core activity but that it cannot be actively managed, or by accepting an unmanaged risk because the cost of managing the risk outweighs the benefits.

Responsibilities

The Board of Trustees (monitored by the Audit Committee) sets risk management standards and the degree of risk aversion for the Gallery, and reviews the major risks to the Gallery.

The Accounting Officer and the Trustees are responsible for managing risk and ensuring that an effective system of internal control is maintained and operated within the Gallery.

Internal Audit is responsible for providing the Accounting Officer and the Audit Committee with assurance that an effective system of internal control has been maintained and is operated within the Gallery.

Budget Holders are responsible for complying with the Budget Holders' Assurance Statement and taking specific action to control the identified risks.

Internal Audit's primary role is to give the Accounting Officer and the Trustees an independent and objective opinion on the Gallery's risk management, internal control and governance. This assists the Internal Controls Committee in assessing and monitoring the effectiveness of the internal controls.

Assurance

The Internal Controls Committee reports on the effectiveness of risk management and the National Gallery's system of internal controls to the Accounting Officer and the Audit Committee on an annual basis.

Internal Audit issues an *Annual Report to the Accounting Officer*, which is reviewed by the Accounting Officer and the Trustees, and which includes Internal Audit's opinion of risk management in the Gallery and a Statement of Assurance on Internal Control.

All Budget Holders provide the Accounting Officer with an annual Assurance Statement.

Further details of financial risk management are included in note 14 to the accounts.

So far as the Accounting Officer and the Trustees are aware, there is no relevant audit information of which the entity's auditors are unaware, and the Accounting Officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the entity's auditors are aware of that information.

Information Risk Management

The Gallery has suffered no protected personal data incident during 2009/10 and has made no report on such a loss to the Information Commissioner's office.

Nicholas Perry
Director and Accounting Officer

30 June 2010

Mark Getty
Chairman

30 June 2010

Remuneration Report

The figures in this report have been subject to audit.

The remuneration report includes salary and pension details of National Gallery staff defined as "directors" of functional areas and other staff at salary band 1. These members of staff are considered to constitute senior management, however executive authority over the decisions of the Gallery as a whole remains solely in the hands of the Director, guided by the Chairman and Board of Trustees. For the purposes of this report directors of functional areas and those staff at salary band 1 are described as "senior managers".

The Chairman and Board of Trustees neither received nor waived any remuneration for their services during the year (2008/09: £Nil).

Director's salary, performance award and benefits

The salary and performance award details for the Director is as follows;

	2009/10		2008/09	
	Salary	Performance related pay	Salary	Performance related pay
	£	£	£	£
Nicholas Penny	140,000	–	140,000	–

Dr Penny is eligible for a performance-related bonus in the range of 0% to 20%. The Director chose not to accept any performance-related bonus during 2009/10 (2008/09: £Nil) given the current economic climate.

No provision is made within the Director's contract for non-cash benefits. The notice period of the Director is six months.

The Director's performance-related bonus is determined by the Remuneration Committee. The Remuneration Committee (comprising Mark Getty, Caroline Thomson and Patricia Lankester during the year) reviews the Director's performance annually, taking account of the achievement of the Gallery's objectives as set out in the funding agreement between the Department for Culture, Media and Sport and the National Gallery.

The Director's appointment is for an indefinite period. In accordance with the provisions of the nuvos scheme the Director may retire at 65. The Director's contract of employment determines the circumstances in which a compensation payment may be made. The compensation provisions are no more advantageous than those set out in the Civil Service Compensation Scheme.

Senior managers' salary, performance award and benefits

	2009/10 £'000	2008/09 £'000
Jillian Barker <i>Director of Education, Information & Access (from 1 September 2009)</i>	35 – 40 ¹	–
Susan Foister <i>Director of Collections</i>	70 – 75	70 – 75
David Jaffe <i>Senior Curator</i>	70 – 75	70 – 75
Larry Keith <i>Director of Conservation (from 4 January 2010)</i>	10 – 15 ²	–
Gregory Perry <i>Director of Operations & Administration (from 1 October 2009)</i>	35 – 40 ³	–
Ashok Roy <i>Director of Scientific Research</i>	70 – 75	70 – 75
Sarah Ward <i>Director of Public Affairs & Development (from 1 September 2009)</i>	45 – 50 ⁴	–
Martin Wyld <i>Director of Conservation (retired 31 December 2009)</i>	50 – 55 ⁵	70 – 75

¹ Full year equivalent is £65,000 – £70,000.

² Full year equivalent is £55,000 – £60,000.

³ Full year equivalent is £70,000 – £75,000.

⁴ Full year equivalent is £80,000 – £85,000.

⁵ Full year equivalent is £70,000 – £75,000.

No provision is made within the contracts of the above individuals for non-cash benefits, and there is no entitlement to performance-related awards. None of the individuals mentioned above received any benefits in kind. The notice period for the above individuals is three months. The appointment of the above individuals is for an indefinite period, and the compensation provisions are no more advantageous than those set out in the Civil Service Compensation Scheme.

Bruce Minty was engaged as an interim Director of Resources from January 2008 to March 2009, through an agency. Payments to the agency for the year to 31 March 2010 amounted to £nil (2008/09: £156,600).

Pensions

The Director's pension is covered by the same scheme as other employees. His contract is for no fixed term, in common with other members of staff at the Gallery.

The accrued pension and lump sum payments as at 31 March 2010 for senior managers and the Director are as follows:

Pension	Accrued pension at age 60 as at 31 March 2010 and related lump sum	Real increase (decrease) in pension and related lump sum at age 60	CETV at 31/3/10	CETV at 31/3/09¹	Real increase (decrease) in CETV
	£'000	£'000	£'000	£'000	£'000
Nicholas Penny	90 – 95	2.5 – 5	1,446	1,321	48
Jillian Barker	0 – 5	0 – 2.5	10	0	9
Susan Foister	25 – 30	0 – 2.5	545	488	24
	plus 75 – 80 lump sum	plus 2.5 – 5 lump sum			
David Jaffe	10 – 15	0 – 2.5	230	196	21
	plus 30 – 35 lump sum	plus 2.5 – 5 lump sum			
Larry Keith	10 – 15	0 – 2.5	219	210	13
	plus 35 – 40 lump sum	plus 0 – 2.5 lump sum			
Gregory Perry	0 – 5	0 – 2.5	10	0	8
Ashok Roy	30 – 35	0 – 2.5	744	688	29
	plus 65 – 70 lump sum	plus 0 – 2.5 lump sum			
Sarah Ward	0 – 5	0 – 2.5	58	38	15
Martin Wyld	50 – 55	0 – 2.5	1,115	1,084	19
	plus 145 – 150 lump sum	plus 2.5 – 5 lump sum			

¹ The figure may be different from the closing figure in last year's accounts. This is due to the CETV factors being updated to comply with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008.

Cash Equivalent Transfer Value

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures, and from 2003-04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements and for which the Cabinet Office's Civil Superannuation Vote has received a transfer payment commensurate with the additional pension liabilities being assumed. They also include an additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are drawn.

Real increase in CETV

This reflects the increase in CETV effectively 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.

Nicholas Perry
Director and Accounting Officer

30 June 2010

Mark Getty
Chairman

30 June 2010

Statement Of Trustees' And Director's Responsibilities

Under Section 9(4) and 9(5) of the Museums and Galleries Act 1992, the Board of Trustees of the National Gallery are required to prepare a statement of accounts for each financial year in the form and on the basis determined by the Secretary of State for Culture, Olympics, Media and Sport, with the consent of the Treasury. The accounts are prepared to show a true and fair view of the National Gallery's financial activities during the year and of its financial position at the year-end.

In preparing the National Gallery's accounts the Trustees are required to:

- observe the accounts direction* issued by the Secretary of State including the relevant accounting and disclosure requirements and apply them on a consistent basis;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards and statements of recommended practice have been followed, and disclose and explain any material departures in the financial statements;
- prepare the financial statements on the going concern basis, unless it is inappropriate to assume that the National Gallery will continue in operation.

The Accounting Officer for the Department for Culture, Media and Sport has designated the Director as the Accounting Officer for the National Gallery. His relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of the public finances for which he is answerable and for the keeping of proper records, are set out in the Non-Departmental Public Bodies' Accounting Officer Memorandum, issued by the Treasury and published in Managing Public Money.

Nicholas Perry
Director and Accounting Officer

30 June 2010

Mark Getty
Chairman

30 June 2010

* a copy of which is available from The National Gallery, Trafalgar Square, London, WC2N 5DN.

Statement on the System of Internal Control

Scope of responsibility

As Accounting Officer and Chairman of the Board of Trustees of the National Gallery, we have responsibility for maintaining a sound system of internal control that supports the achievement of the Gallery's policies, aims and objectives, whilst safeguarding the public funds and assets for which the Accounting Officer is personally responsible, in accordance with the responsibilities assigned in *Managing Public Money*.

Purpose of system of internal control

The system is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify and prioritise the principal risks to the achievement of the Gallery's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them effectively, efficiently and economically. The system of internal control has been in place throughout the year ended 31st March 2010 and up to the date of approval of the annual report and financial statements, and it accords with Treasury guidance.

Capacity to handle risk

The National Gallery has an Internal Controls Committee to monitor, maintain and improve the general control environment operating within the Gallery. This committee is made up of representatives of different Gallery departments, and has provided a forum for risk management workshops. During these workshops, the committee identified the Gallery's risks and determined a control strategy for each of the significant risks. The Internal Controls Committee has also worked on formulating the Gallery's policies, including the risk management policy, which sets out the responsibilities for managing risk as follows:

- the Board of Trustees (monitored by the Audit Committee) sets risk management standards and the degree of risk aversion for the Gallery, and reviews the major risks to the Gallery;
- the Accounting Officer and Trustees are responsible for managing risk and ensuring that an effective system of internal control is maintained and operated within the Gallery;
- the Internal Controls Committee is responsible for providing the Accounting Officer and the Audit Committee with assurance that an effective system of internal control has been maintained and is operated within the Gallery;
- Budget Holders are responsible for complying with the requirements of the Budget Holders' Assurance Statement and taking specific action to control the identified risks;
- Internal audit's primary role is to give the Accounting Officer and Trustees an independent and objective opinion on the Gallery's risk management, internal control and governance. This assists internal audit in assessing and monitoring the effectiveness of the internal controls.

The risk and control framework

The system of control is based on a framework of management processes including regular management information, administrative procedures, and a system of delegation and accountability. In particular it includes:

- comprehensive budgeting systems with an annual budget which is reviewed and agreed by the Executive Committee, and incorporated in a corporate plan, reviewed and approved by Trustees;
- regular reviews by the Executive Committee and Trustees of periodic and annual financial reports which indicate financial performance against the forecasts;
- setting targets to measure financial and other performance;
- clearly defined capital investment control guidelines; and
- a system of delegation and accountability.

The Gallery has in place specific policies relating to the appropriate use, storage, dissemination, security and disposal of information, including personal data and other sensitive information. During the year the Gallery has worked further to comply with the Cabinet Office's mandatory requirements on the management of information risk. In particular, an Information Risk Management Policy and Incident Management Procedure have been approved and a register of information assets has been further developed. Information risk management forms part of the annual budget holders' assurance statements and it has been recognised that a programme of organisation-wide training is required to ensure compliance with the relevant requirements.

The National Gallery uses an externally provided internal audit unit, which operates to standards defined in the Government Internal Audit Standards. The work of the internal audit unit is informed by the analysis of risk to which the Gallery is exposed, and annual internal audit plans are based on this analysis. Internal audit provides the Audit Committee with an annual report on internal audit activity in the Gallery. The report includes internal audit's opinion on the adequacy and effectiveness of the Gallery's system of internal financial control. This report provided assurance limited only by controls over cash collection services. Weaknesses identified last year concerning controls over freelance staff have been addressed to some extent during the year, with work on this area ongoing.

Review of effectiveness

As Accounting Officer and Chairman of the Board of Trustees, we also have responsibility for reviewing the effectiveness of the system of internal control. Our review of the effectiveness of the system of internal control is informed by the work of the internal auditors, the Audit Committee which oversees the work of the internal auditors, the executive managers within the Gallery who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports.

In our view, the information we have received was sufficient to enable us to review the effectiveness of the Gallery's system of internal control in accordance with the relevant recommendations of the Treasury Guidance. We consider the overall framework of controls to be effective and will work together to address weaknesses and ensure continuous improvement of the system.

Nicholas Perry
Director and Accounting Officer

30 June 2010

Mark Getty
Chairman

30 June 2010

The Board of Trustees of The National Gallery

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

I certify that I have audited the financial statements of the National Gallery for the year ended 31 March 2010 under the Museums and Galleries Act 1992. These comprise the Statement of Financial Activities, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Trustees, the Director and the Auditor

The Trustees and the Director, as Accounting Officer, are responsible for preparing the Annual Report, which includes the Remuneration Report, and the financial statements in accordance with the Museums and Galleries Act 1992 and the Secretary of State for Culture, Olympics, Media and Sport's directions made thereunder and for ensuring the regularity of financial transactions funded by Parliamentary grant and grant-in-aid. These responsibilities are set out in the Statement of Trustees' and Director's Responsibilities.

My responsibility is to audit the financial statements and the part of the Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Museums and Galleries Act 1992 and the Secretary of State for Culture, Olympics, Media and Sport's directions made thereunder. I report to you whether, in my opinion, the information, which comprises the sections headed the structure and role of the National Gallery, Objectives, the Gallery's contributions to DCMS' performance targets and the Foreword included in the Annual Report, is consistent with the financial statements. I also report whether in all material respects the incoming and outgoing resources funded by Parliamentary grant and grant-in-aid have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if the National Gallery has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the National Gallery's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or form an opinion on the effectiveness of the National Gallery's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This information comprises the unaudited part of the Remuneration Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinions

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Trustees and the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the National Gallery's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that in all material respects the incoming and outgoing resources funded by Parliamentary grant and grant in aid have been applied to the purposes intended by Parliament and the financial transactions

conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the Museums and Galleries Act 1992 and directions made thereunder by the Secretary of State for Culture, Olympics, Media and Sport, of the state of the National Gallery's affairs as at 31 March 2010 and of its incoming resources and application of resources for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Museums and Galleries Act 1992 and the Secretary of State for Culture, Olympics, Media and Sport's directions made thereunder; and
- information, which comprises the sections headed the Structure and Role of the National Gallery, Objectives, the Gallery's contributions to DCMS' performance targets and the Foreword included in the Annual Report is consistent with the financial statements.

Opinion on Regularity

In my opinion, in all material respects, the incoming and outgoing resources funded by Parliamentary grant and grant-in-aid have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Report

I have no observations to make on these financial statements.

Amyas C E Morse

Comptroller and Auditor General

National Audit Office

157-197 Buckingham Palace Road

Victoria

London

SW1W 9SP

5 July 2010

Statement of Financial Activities

for the year ended 31 March 2010

	OPERATING INCOME AND EXPENDITURE		Funded capital projects and revaluations (a)		Acquisitions for the collection (b)			TOTAL 2010		TOTAL 2009
	Unrestricted funds	Restricted funds	Unrestricted funds	Restricted funds	Unrestricted funds	Restricted funds	Permanent funds endowment	Total		
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
	Unrestricted funds	Restricted funds	Total core operations	Unrestricted funds	Restricted funds	Total capital projects and revaluations	Unrestricted funds	Restricted funds	Total collection acquisition funds	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Incoming resources										
Incoming resources from generated funds										
Voluntary income										
2 Grant in Aid	23,537	-	23,537	-	-	3,330	-	420	420	27,287
3 Other government grants	-	160	160	-	-	-	-	-	-	160
4 Donations	111	1,224	1,335	-	261	261	-	3,224	3,224	4,820
Legacies	-	-	-	-	-	-	37	143	180	180
5 Activities for generating funds	2,852	-	2,852	-	-	-	-	2,852	-	2,852
6 Investment income	63	109	172	-	-	-	549	612	798	970
Incoming resources from charitable activities										
Exhibitions	1,570	-	1,570	-	-	-	-	1,570	-	1,570
Educational activities	273	-	273	-	-	-	-	273	-	273
Total incoming resources	28,406	1,493	29,899	3,591	4,036	3,591	586	28,992	4,622	38,112
Resources expended										
Costs of generating funds										
8 Fundraising costs	(1,274)	-	(1,274)	-	-	-	-	(1,274)	-	(1,274)
8 Unrealised foreign exchange gain/(loss)	206	-	206	-	-	-	-	206	-	206
8 Investment management costs	-	(11)	(11)	-	(62)	-	(62)	(62)	(89)	(100)
	(1,068)	(11)	(1,079)	-	(62)	-	(62)	(1,130)	(89)	(1,589)
Charitable activities										
8 Exhibitions	(936)	(756)	(1,692)	-	(227)	(227)	-	(936)	(983)	(1,919)
8 Educational activities	(1,475)	(178)	(1,653)	-	(222)	(222)	-	(1,475)	(400)	(1,875)
8 Care of the collection	(9,179)	(127)	(9,306)	-	(1,250)	(1,250)	-	(9,179)	(1,377)	(10,556)
8 Study and interpretation of the collection	(1,780)	(168)	(1,948)	-	(262)	(262)	-	(1,780)	(430)	(2,210)
8 Access to the collection	(11,134)	(206)	(11,340)	-	(1,516)	(1,516)	-	(11,134)	(1,722)	(12,856)
	(24,504)	(1,435)	(25,939)	-	(3,477)	(3,477)	-	(24,504)	(4,912)	(29,416)
Governance costs										
8	(181)	-	(181)	-	-	-	-	(181)	-	(181)
Total resources expended	(25,753)	(1,446)	(27,199)	(3,477)	(27)	(3,477)	(62)	(25,815)	(4,950)	(30,765)
Net incoming/(outgoing) resources before transfers, notional costs and other recognised gains and losses	2,653	47	2,700	-	114	114	524	3,177	4,533	7,347

	OPERATING INCOME AND EXPENDITURE		Funded capital projects and revaluations (a)		Acquisitions for the collection (b)			TOTAL 2010		TOTAL 2009
	Unrestricted funds	Restricted funds	Unrestricted funds	Restricted funds	Unrestricted funds	Restricted funds	Total collection acquisition funds	Unrestricted funds	Restricted funds endowment	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Note										
Notional cost of capital	(402)	–	(2,485)	(2,485)	–	–	–	(402)	(2,485)	(3,637)
Net incoming/(outgoing) resources after notional costs but before transfers and other recognised gains and losses	2,251	47	2,298	(2,371)	524	4,009	4,533	2,775	1,685	4,460
Reversal of notional costs	402	–	2,485	2,485	–	–	–	402	2,485	2,887
Transfers	(2,369)	(2)	(2,371)	399	(9,096)	11,068	1,972	(40,352)	40,352	–
Net incoming/(outgoing) resources before other recognised gains and losses	284	45	329	513	(8,572)	15,077	6,505	(37,175)	44,522	7,347
Loss on revaluation of fixed assets for charity's own use	–	–	(7,190)	(7,190)	–	–	–	–	(7,190)	(20,691)
Realised and unrealised investment gains/(losses)	–	306	–	–	2,649	780	3,429	2,649	1,086	4,697
Net movement in funds	284	351	635	(6,677)	(5,923)	15,857	9,934	(34,526)	38,418	4,854
Opening funds	1,993	3,431	5,424	207,242	27,484	104,604	132,088	58,364	286,390	348,993
Closing funds	2,277	3,782	6,059	200,565	21,561	120,461	142,022	23,838	324,808	353,847

(a) representing the value of capital assets, excluding the collection.

(b) representing the value, at the date of acquisition, of donations to the collection and picture acquisitions since 1 April 2001, and restricted and designated funds for future acquisitions.

All operations continued throughout the period. There are no recognised gains and losses other than those shown above.

For an explanation of transfers please see note 16.

This Statement of Financial Activities is shown in this expanded format to enable a reader of the accounts to distinguish between the Gallery's operating activities and those activities relating to capital projects and acquisitions, which due to their high value could otherwise have a distorting effect on the overall presentation of incoming and outgoing resources.

The notes on pages 30 to 47 form part of these accounts.

Balance Sheet as at 31 March 2010

	Note	2010		2009	
		£'000	£'000	£'000	£'000
Fixed Assets					
Tangible Assets	10	200,565		207,242	
Heritage Assets	10	132,627		130,865	
Investments	11a	24,285		18,933	
			357,477		357,040
Current Assets					
Stock		3		2	
Debtors	12	16,068		31,916	
Investments	11b	2,363		7,795	
Cash at bank and in hand	19d	19,684		12,151	
		38,118		51,864	
Creditors:					
Amounts falling due within one year	13	(21,114)		(21,563)	
Net current assets			17,004		30,301
Total assets less current liabilities			374,481		387,341
Creditors:					
Amounts falling due after one year	13		(20,634)		(38,348)
Net assets			353,847		348,993
Represented by:					
Restricted funds:					
Restricted funds (excluding revaluation reserves)		304,827		260,657	
Revaluation reserves		19,981		25,733	
	16		324,808		286,390
Unrestricted funds:					
Designated		21,561		50,903	
Designated funds already expended on acquisitions		–		5,468	
General funds		2,277		1,993	
	16		23,838		58,364
Total Income Funds			348,646		344,754
Capital funds – permanent endowments	16		5,201		4,239
Total Funds			353,847		348,993

The notes on pages 30 to 47 form part of these accounts.

Nicholas Perry
Director and Accounting Officer
30 June 2010

Mark Getty
Chairman
30 June 2010

Cash Flow Statement for the year ended 31 March 2010

	Note	2010		2009	
		£'000	£'000	£'000	£'000
Net cash inflow from operating activities	19a		5,910		4,592
Returns on investment and servicing of finance					
Bank interest received		99		591	
Interest received on investment portfolio deposits		3		66	
Investment income		774		738	
			876		1,395
Capital expenditure and financial investment					
Receipts from sale of tangible fixed assets		14		–	
Payments to acquire tangible fixed assets		(4,036)		(2,729)	
Payments from donated funds for collection acquisitions		(8)		(1,013)	
Purchase of investments		(655)		(784)	
Proceeds from sales of investments		–		75	
			(4,685)		(4,451)
			2,101		1,536
Management of liquid resources	19b		5,432		(980)
Increase/(decrease) in cash for the year	19c		7,533		556

The notes on pages 30 to 47 form part of these accounts.

Notes to the Financial Statements

1. Accounting Policies

a. Accounting Convention

The financial statements have been prepared under the historic cost convention, as modified by the revaluation of certain fixed assets and the inclusion of the investments at market value. The financial statements have been prepared in accordance with the accounts direction issued by the Secretary of State, the Statement of Recommended Practice (SORP) "Accounting and Reporting by Charities", published in October 2005, the Government's Financial Reporting Manual 2009-10 and applicable accounting standards.

Investments are stated at market value rather than at historic cost. Any unrealised gains or losses arising from this policy are disclosed in the statement of financial activities (SOFA).

b. Incoming Resources

All incoming resources are included in the SOFA when the Gallery is legally entitled to the income and the amount can be quantified with reasonable accuracy.

The Grant in Aid from the Department for Culture, Media and Sport is taken to the SOFA in the year in which it is received. Lottery income is recognised as income when the conditions for its receipt have been met. Other grants, donations and legacies are recognised as incoming resources when the Gallery becomes entitled to the income, there is certainty of receipt and the amount is quantifiable.

Gifts in kind intended for use by the Gallery are recognised in the SOFA as incoming resources at a reasonable estimate of their current value on receipt. Contractual income is recognised as incoming resources to the extent that the Gallery has provided the associated goods or services; income from the corporate membership programme, for example, is recognised over the period of membership. Where income is received in advance and the Gallery does not have entitlement to these resources until the goods or services have been provided, the income is deferred in the accounts.

Income derived from endowments has been included within unrestricted funds in the SOFA, except where the application of the income is restricted to a particular purpose, in which case the income and expenditure has been appropriately identified in restricted funds. See note 16 for further details.

c. Resources expended

All expenditure is accounted for on an accruals basis and has been classified under headings that aggregate all costs related to the category, including an apportionment of overhead and support costs. The allocation of these support costs, including overheads, is analysed in note 8.

Fundraising costs are those incurred in seeking voluntary contributions and do not include the costs of disseminating information in support of the charitable activities.

Exhibitions costs represent the costs of mounting exhibitions. Costs incurred on educational activities include all costs associated with running the Gallery's extensive education programme. Care of the collection costs are those incurred in keeping the collection safe and the cost of restoration and conservation. Study of the collection costs are those incurred in scholarship, research and documentation of the collection. Access to the collection costs are those incurred in promoting understanding and enjoyment of the collection, publicising the Gallery and visitor services.

Governance costs include the costs of providing the governance infrastructure that allows the Gallery to operate, as well as the costs of the strategic planning processes that contribute to the Gallery's future development. These costs include the costs of statutory and internal audit, as well as an apportionment of support costs.

Liabilities are recognised where legal or constructive obligations mean that it is more likely than not that a transfer of economic benefits will be made.

Irrecoverable VAT is apportioned across the activity cost categories detailed in note 8.

Collection Purchases

The historic value of the collection is considered to be incalculable and is inalienable and no amount has been included for it in the Balance Sheet.

In accordance with the Government Financial Reporting Manual (FRM) – which follows UK GAAP – additions to the collection since 1 April 2001 are capitalised and recognised in the Balance Sheet, at the cost or value of the acquisition, where such a cost or value is reasonably obtainable. Such items are not depreciated or revalued as a matter of routine.

Works of art donated by third parties, either by gift of the asset or by way of funds for the asset, are capitalised at current value on receipt. Such donations are accounted for through the donated asset reserve and are not included within the caption “incoming resources before transfers, notional costs, revaluations and donations relating to collection acquisitions”. Donated assets are not depreciated or revalued as a matter of routine.

d. Fund Accounting

General funds are unrestricted funds which are available for use at the discretion of the Trustees in furtherance of the general objectives of the Gallery and which have not been designated for other purposes.

Designated funds comprise unrestricted funds that have been set aside by the Trustees for particular purposes. The funds include bequests made to the Gallery where it was clearly the wish of the donor that the money is to be used for picture purchase but where no legal restriction exists as to the use made of the bequest. The details of each designated fund are disclosed in note 16.

Restricted funds are funds which are to be used in accordance with specific restrictions imposed by the donor. The aim and use of restricted funds is explained in note 16.

Permanent endowment funds are funds which the donor has stated are to be held as capital.

e. Tangible fixed assets

Tangible fixed assets, other than collection acquisitions, are accounted for using modified historic cost accounting. However, adjustments to the net book value are only made where material. The Gallery applies a £2,000 threshold to the capitalisation of all fixed assets.

Depreciation is provided on all tangible assets, other than collection acquisitions, at rates calculated to write off the cost or valuation, less estimated residual value, of each asset evenly over its expected useful life.

Freehold buildings	75 years
Equipment	4 years
Plant and machinery	30 years
Collection acquisitions	Not depreciated

As the useful economic life of the freehold buildings asset class exceeds 50 years, an impairment review is performed in accordance with FRS 11 at the end of each reporting period, to compare the carrying amount of the fixed asset with its depreciated replacement cost value.

Depreciation is charged on capital costs in the year in which the asset is brought into use. Collection acquisitions are capitalised at historic cost and are not depreciated or revalued as a matter of routine.

Land and buildings, and plant and machinery are revalued annually on a depreciated replacement cost basis. Movements are taken to the revaluation reserve.

f. Investments

Investments held as fixed assets are included at market value at the year-end. The SOFA includes any realised and unrealised investment gains and losses arising on revaluation and disposals throughout the year.

Cash in deposits with a maturity of more than 24 hours, excepting cash held specifically as part of the investment portfolio or for investment purposes, is treated as a current asset investment.

g. Stocks

Tangible stocks are held by the Gallery for use in the staff canteen. Stocks for the gift shops situated within the Gallery premises are owned by the National Gallery Company Limited. The cafe and restaurant facilities are also franchised out. Stocks are stated at the lower of cost or net realisable value.

h. Leases

The National Gallery has no finance leases. Costs in relation to operating leases are charged to the SOFA over the life of the lease.

i. Foreign Currencies

Assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the time of the transaction. All exchange differences are taken to the SOFA.

j. Pensions

Staff of the National Gallery are employed under broadly the same conditions of service as Civil Servants, to whom the conditions of the Superannuation Acts 1965 and 1972 and subsequent amendments apply. Present and past employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). The PCSPS is an unfunded multi-employer defined benefit scheme. Full details of the pension scheme are included in the Remuneration Report.

k. Trust Funds

These funds represent amounts which have been bequeathed to the Gallery mainly for the purposes of picture acquisition. Income earned on the capital held in restricted funds is recognised in the SOFA as it arises. Any unutilised income together with the capital is held in a separate restricted fund which can only be used for the purposes originally specified by the donor.

l. Notional Costs

In accordance with Treasury guidance, notional cost of capital (calculated as 3.5% of the average non-donated capital employed, excluding heritage assets and balances held with Government Banking Services) is charged in the SOFA in arriving at the net incoming / (outgoing) resources figure. This is reversed so that no provision is included on the balance sheet.

m. Taxation

The Gallery is eligible under s.505 of the Income and Corporation Taxes Act 1988 to seek from the HMRC exemption from taxes on income arising from the pursuit of its charitable objectives. HMRC has granted this exemption.

2. Grant in Aid

	2010	2009
	£'000	£'000
Department for Culture, Media and Sport	27,287	26,369

This money is available for running costs, capital improvements and collection purchases. Of the total figure, £3.75m (2009: £3.95m) was ring-fenced for capital purposes.

3. Other Government Grants

	2010	2009
	£'000	£'000
Strategic Commissioning grant from the Department for Culture, Media and Sport	160	158

4. Donations

	2010	2009
	£'000	£'000
General donations can be split as follows:		
Individuals	655	78
Trusts and Foundations	638	553
Corporate donors	116	128
Gifts in Kind	39	4
EU income	103	–
Other	45	156
	<u>1,596</u>	<u>919</u>

Restricted donations included above total £1.485m.

Donations relating to capitalised collection acquisitions can be split as follows:

	2010	2009
	£'000	£'000
Individuals	42	264
Trusts and Foundations	20	332
Corporate donors	–	3
Gifts in kind	–	31,931
Pictures acquired under the acceptance-in-lieu scheme	1,675	–
Other	1,487	8
	<u>3,224</u>	<u>32,538</u>
Total donations	<u>4,820</u>	<u>33,457</u>

Other relates to the release of income deferred in 2008/09 to fund the first instalment for the acquisition of Titian's *Diana & Actaeon*.

5. Activities for generating funds and other incoming resources

	2010	2009
	£'000	£'000
<i>Activities for generating funds</i>		
Trading	1,643	2,021
Concessions	760	856
Miscellaneous	449	363
	<u>2,852</u>	<u>3,240</u>

Trading income includes royalties, venue hire, exhibition sponsorship and the corporate membership programme.

6. Investment Income

	2010	2009
	£'000	£'000
Bank interest receivable	92	726
Interest receivable on UK investment portfolio deposits	136	158
Other UK fixed interest stocks	176	176
UK equities	465	450
Foreign equities	101	98
	<u>970</u>	<u>1,608</u>

7. Trustees' remuneration

The Chairman and Board of Trustees neither received nor waived any remuneration for their services during the year (2008/09: £Nil). The total value of expenses reimbursed to Trustees amounted to £853 for the year (2008/09: £1,990), representing travel and catering expenses for three Trustees (2008/09: 3 trustees).

8. Total resources expended

	Direct costs	Support costs	Depreciation	Total 2010	Total 2009
	£'000	£'000	£'000	£'000	£'000
Fundraising costs	1,164	110	–	1,274	1,301
Unrealised foreign exchange loss	(206)	–	–	(206)	206
Investment management costs	100	–	–	100	82
	<u>1,058</u>	<u>110</u>	<u>–</u>	<u>1,168</u>	<u>1,589</u>
Exhibitions	1,617	75	227	1,919	2,032
Educational activities	1,532	121	222	1,875	1,417
Care of the collection	8,794	512	1,250	10,556	12,198
Study and interpretation of the collection	1,745	203	262	2,210	1,931
Access to the collection	10,394	946	1,516	12,856	11,267
	<u>24,082</u>	<u>1,857</u>	<u>3,477</u>	<u>29,416</u>	<u>28,845</u>
Governance costs	172	9	–	181	269
	<u>25,312</u>	<u>1,976</u>	<u>3,477</u>	<u>30,765</u>	<u>30,703</u>

A breakdown of support costs and a description of the basis on which these costs have been allocated to each of the activity cost categories is set out below:

Cost type	Fundraising costs	Exhibitions	Educational activities	Care of the collection	Study of the collection	Access to the collection	Governance	Total	Basis of allocation
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
Finance	14	47	32	227	6	35	3	364	Direct expenditure of activity
Human Resources	19	6	18	58	40	462	2	605	Headcount
Information Services	64	18	58	187	129	369	3	828	Headcount of office-based staff
Office Services	13	4	13	40	28	80	1	179	Headcount of office-based staff
	<u>110</u>	<u>75</u>	<u>121</u>	<u>512</u>	<u>203</u>	<u>946</u>	<u>9</u>	<u>1,976</u>	

Analysis of governance costs:

	2010	2009
	£'000	£'000
Staff costs	96	158
Auditor's remuneration	40	39
Internal audit fees	31	17
Cost of meetings	5	8
External consultants	–	35
Support costs	9	12
	<u>181</u>	<u>269</u>

Total resources expended include the following:

	2010	2009
	£	£
Auditor's remuneration:		
Statutory audit	39,000	38,000
EU scientific department audit	650	650
	<u>39,650</u>	<u>38,650</u>
Leased rental payments on equipment and office space	<u>284,776</u>	<u>508,699</u>

The National Gallery's auditors neither undertook nor received any remuneration for non-audit work during the year

9. Staff Costs

	2010	2009
	£'000	£'000
Wages & salaries	12,773	12,525
Social security costs	921	887
Pension costs	2,048	2,073
Agency staff	126	347
	<u>15,868</u>	<u>15,832</u>

The total number of employees, including the Director, whose remuneration as defined for taxation purposes amounted to over £60,000 in the year was as follows:

	2010	2009
£60,000 – £69,999	3	3
£70,000 – £79,999	4	5
£140,000 – £149,999	1	1
	<u>8</u>	<u>9</u>

All of the employees earning more than £60,000 participated in the Principal Civil Service Pension Scheme (PCSPS) pension schemes.

The average number of employees during the year, analysed by function was:

	2010 Permanent contracts	2010 Other contracts	2010 Total	2009 Restated*
Fund-raising	16	3	19	14
Exhibitions	3	1	4	4
Educational activities	12	10	22	22
Care of the collection	39	3	42	42
Study of the collection	22	8	30	29
Access to the collection	286	41	327	333
Support Costs	23	3	26	26
Governance	1		1	1
	<u>402</u>	<u>69</u>	<u>471</u>	<u>471</u>

* restated to include agency and freelance staff

Further information relating to the Director's and senior managers' pay can be found in the Remuneration Report.

Staff of the National Gallery are employed under broadly the same conditions of service as Civil Servants, to whom the conditions of the Superannuation Acts 1965 and 1972 and subsequent amendments apply.

All present and past employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS).

The PCSPS is an unfunded multi-employer defined benefit scheme. The National Gallery is unable to identify its share of the underlying assets and liabilities. The Scheme Actuary (Hewitt Bacon Woodrow) valued the scheme as at 31 March 2007. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice.gov.uk/pensions).

For 2009/10, employers' contributions of £2,022,884 were payable to the PCSPS (2008/09: £2,123,181) at one of four rates in the range 16.7 to 24.3 per cent of pensionable pay (2008/09: 17.1%-25.5%) based on salary bands. The Scheme Actuary reviews employer contributions every four years following a full scheme valuation.

From 2010/11, the rates will be in the range 16.7% to 24.3%. The contribution rates are set to meet the cost of the benefits accruing during 2009/10 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £23,244 (2008/09: £15,358) were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3 to 12.5 per cent of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay. In addition, employer contributions of £2,033 (2008/09: £1,365), 0.8 per cent of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees. Contributions due to the partnership pension providers at the balance sheet date were £381 (2008/09: £275). Contributions prepaid at that date were £4,489 (2008/09: £3,678).

10. Tangible fixed assets and heritage assets

	Freehold Land & Buildings	Plant & Machinery	Assets in the Course of Construction	Equipment	Total	Heritage Assets
	£'000	£'000	£'000	£'000	£'000	£'000
Cost or Valuation						
As at 1 April 2009	147,531	62,016	134	3,445	213,126	130,865
Donated works of art	-	-	-	-	-	1,683
Additions	2,295	1,317	49	329	3,990	79
Disposals	-	-	-	(45)	(45)	-
Revaluation	(5,033)	(2,157)	-	-	(7,190)	-
Transfers	-	-	(157)	157	-	-
As at 31 March 2010	<u>144,793</u>	<u>61,176</u>	<u>26</u>	<u>3,886</u>	209,881	132,627
Depreciation						
As at 1 April 2009	1,031	2,016	-	2,837	5,884	-
Disposals	-	-	-	(45)	(45)	-
Charge for year	1,062	2,060	-	355	3,477	-
Revaluation	-	-	-	-	-	-
As at 31 March 2010	<u>2,093</u>	<u>4,076</u>	<u>-</u>	<u>3,147</u>	9,316	-
Net Book Value						
31 March 2010	<u>142,700</u>	<u>57,100</u>	<u>26</u>	<u>739</u>	<u>200,565</u>	<u>132,627</u>
31 March 2009	<u>146,500</u>	<u>60,000</u>	<u>134</u>	<u>608</u>	<u>207,242</u>	<u>130,865</u>

The collection is inalienable, and the historic value of those paintings acquired before 1 April 2001 is considered to be incalculable. No amount has been included for those paintings in the Balance Sheet.

The freehold of the National Gallery, including both the Wilkins Building and the Sainsbury Wing, was transferred from the Secretary of State for the Environment and the Crown to the Trustees of the Gallery on 12 January 1994. In accordance with Treasury requirements, land and buildings were valued on a depreciated replacement cost basis at 31 March 2010. The desktop valuation was performed by BNP Paribas Real Estate, an independent firm of Chartered Surveyors, in accordance with the RICS Appraisal and Valuation Manual (the Red Book).

The financial effect of revaluing other assets (excluding plant and machinery) was considered to be insignificant in terms of the overall net book value and therefore they have been disclosed at their historic cost value.

The Trustees consider the building to be effectively inalienable; it would not be possible to realise its value. The net book value at 31 March 2010 represents fixed assets held for charitable purposes only.

11. a) Fixed asset investments

	2010	2009
	£'000	£'000
Market value as at 1 April	18,933	22,946
Increase/(decrease) in investment portfolio deposits	475	708
Listed investments:		
Disposal proceeds	–	(75)
Additions at cost	180	76
Realised and unrealised gains/(losses)	4,697	(4,722)
Market value as at 31 March	<u>24,285</u>	<u>18,933</u>

All investments are listed on a recognised stock exchange and are analysed as follows:

Listed Investments

UK fixed interest stocks	2,824	2,795
UK equities	11,454	7,836
Overseas equities	4,579	3,349
	<u>18,857</u>	<u>13,980</u>
<i>Cash held as part of the investment portfolio</i>		
UK investment portfolio deposits	5,428	4,953
	<u>24,285</u>	<u>18,933</u>

The overall market value of investments increased during the year, reflecting movements in both the UK and international markets.

b) Current asset investments

	2010	2009
	£'000	£'000
Current asset investments	2,363	7,795

Current asset investments comprise cash in deposits with a maturity of more than 24 hours, excepting cash held specifically as part of the investment portfolio or for investment purposes, is treated as a current asset investment.

12. Debtors

	2010	2009
	£'000	£'000
Amounts falling due within one year:		
Trade debtors	1,108	481
Other debtors	3,861	10,577
VAT	583	500
Prepayments & accrued income	1,116	1,936
	<u>6,668</u>	<u>13,494</u>
Amounts falling due in more than one year:		
Other debtors	<u>9,400</u>	<u>18,422</u>

Included in the sum of other debtors is £12.7m relating to incoming resources for the acquisition of Titian's 'Diana and Actaeon' from National Galleries of Scotland, the National Heritage Memorial Fund and the Art Fund.

	Amounts falling due within one year		Amounts falling due in more than one year	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Balances with Central Government Bodies	3,986	10,720	9,025	17,581
Balances with local authorities	-	-	-	-
Balances with NHS Trusts	-	-	-	-
Subtotal: intra-government balances	3,986	10,720	9,025	17,581
Balances with bodies external to government	2,682	2,774	375	841
Total debtors at 31 March	6,668	13,494	9,400	18,422

13. Creditors

	2010 £'000	2009 £'000
Amounts falling due within one year:		
Trade creditors	1,688	1,685
Other creditors	17,137	17,492
Accruals and deferred income	2,289	2,386
	21,114	21,563

Other creditors include £16.3m due to be paid on 6 April 2010 for the acquisition of Titian's Diana and Actaeon'.

	2010 £'000	2009 £'000
Amounts falling due in over one year:		
Other creditors	16,532	32,197
Accruals and deferred income	4,102	6,151
	20,634	38,348
In more than one year but not more than two years	18,140	18,167
In more than two years but not more than five years	990	18,407
In more than five years, payable by instalments	1,504	1,774
	20,634	38,348

Other creditors due in over one year include £16m due to be paid on 6 April 2011 for the acquisition of Titian's 'Diana and Actaeon'.

	Amounts falling due within one year		Amounts falling due in more than one year	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Balances with Central Government Bodies	2,170	3,827	1,631	3,227
Balances with local authorities	-	-	-	-
Balances with NHS Trusts	-	-	-	-
Subtotal: intra-government balances	2,170	3,827	1,631	3,227
Balances with bodies external to government	18,944	17,736	19,003	35,121
Total debtors at 31 March	21,114	21,563	20,634	38,348

Movement on the deferred income account:

	2010	2009
	£'000	£'000
As at 1 April	8,367	3,315
Amount released from previous years	(2,342)	(661)
Incoming resources deferred in the current year	183	5,713
As at 31 March	<u>6,208</u>	<u>8,367</u>

Income deferred in the year includes donations related to the acquisition of Titian's 'Diana and Actaeon', which have been deferred to match the income with known future payments. Other incoming resources deferred in the current and previous year include an estimate of the value of the donated element of a painting, *The Cumaean Sibyl with Putto* by Guercino, which is being acquired by the Gallery in instalments and the title of which passes to the Gallery at an uncertain point in the future. The carrying value of this picture in the balance sheet is £4.2m. Also included above is a creditor balance representing the likely future instalments due in relation to the picture.

14. Financial risk management

FRS 29 requires disclosure of the role financial instruments have had during the period in creating or changing the risks the Gallery faces in undertaking its activities.

Credit risk

The Gallery's credit risk arises from investments, cash deposits with banks, trade and other debtors. Cash is held by the Gallery's bankers. The Gallery has not suffered any loss in relation to cash held by bankers.

The Gallery is exposed to credit risk of £1.1m of trade debtors. This risk is not considered significant as major customers are familiar to the Gallery. The Gallery's debtor profile is reviewed regularly to ensure that prompt action is taken, and a provision is made at the end of the year against any debts considered doubtful.

The Gallery is exposed to credit risk of £13.1m on the income receivable for the acquisition of Titian's *Diana and Actaeon*. The risk is not considered significant as the donors are well known to the Gallery and has an established record of making payments on time.

Liquidity risk

Approximately 71% of the Gallery's incoming resources before transfers, notional costs and revaluations is provided by Grant in Aid from the Department for Culture, Media and Sport. As a result the Gallery is not exposed to significant liquidity risks.

Exposure to liquidity risk amounts to £16.0m of equity investments. The Gallery's investments are monitored by a sub-committee of the Board which meets regularly to consider liquidity requirements over the medium term and review fund performance in discussion with the fund managers.

Market risk

a) Interest rate risk

The reserves and investment policies of the Gallery are outlined in the Trustees' Report of the accounts. Interest income is 3% of the Gallery's incoming resources before transfers, notional costs and revaluations, so the interest rate is not considered to be a significant risk for the Gallery.

The Gallery is exposed to interest rate risk on its interest bearing deposits. The Gallery's interest rate policy seeks to minimise interest volatility by using fixed-rate deposits where possible.

The following table shows the interest rate profile of the Gallery's financial assets.

	Total	Non-interest bearing assets held	Floating-rate cash held	Fixed rate short term cash deposits held	Fixed rate weighted average interest rate	Weighted average period for which rate is fixed
	£'000	£'000	£'000	£'000	%	Days
At 31 March 2010 Sterling	46,332	18,870	25,065	2,397	0.65%	100
At 31 March 2009 Sterling	38,879	14,002	20,775	4,102	3.84%	86

The interest receivable on the floating rate deposits is at a variable rate as determined by the Gallery's bank, Coutts & Co.

b) Price risk

The Gallery's comprehensive annual budget reflects anticipated levels of income for the year. It is reviewed and agreed by the Management Committee, and incorporated in a corporate plan which is reviewed and approved by Trustees.

Costs of supplies purchased are subject to contracts with suppliers, the structure of which vary; for example some are based on current market prices, others are at agreed fixed prices. The Gallery's exposure to equity securities price risk is monitored by the Trust Funds Committee, as described in the investment policy above. The Gallery does not hold any derivative instruments, options, futures, forward contracts or foreign currency, except where there is a specific need for such instrument, as outlined below, or where it is held as part of an investment strategy as determined by the Trust Funds Committee.

c) Foreign currency risk

Foreign currency transactions are not material.

The Gallery does not consider the market risks listed to be significant enough to require a sensitivity analysis.

Financial assets and liabilities

The following table shows the Gallery's financial assets and liabilities by category, as defined in FRS25.

As at 31 March 2010

	Loans & receivables £'000	Available-for-sale £'000	Other financial liabilities £'000
Cash	19,684		
Current asset investments	2,363		
Trade and other debtors	15,004		
Investments		24,285	
Trade and other creditors			(34,996)
	<u>37,051</u>	<u>24,285</u>	<u>(34,996)</u>

As at 31 March 2009

	Loans & receivables £'000	Available-for-sale £'000	Other financial liabilities £'000
Cash	12,142		
Current asset investments	7,795		
Trade and other debtors	29,865		
Investments		18,933	
Trade and other creditors			(51,250)
	<u>49,802</u>	<u>18,933</u>	<u>(51,250)</u>

15. Financial Commitments**Capital Commitments**

Capital expenditure commitments were as follows:

	2010 £'000	2009 £'000
Contracted for, but not provided in the accounts	<u>174</u>	<u>86</u>

Commitments under operating leases

As at 31 March 2010 the National Gallery had annual commitments under operating leases for photocopiers as set out below:

	2010 £'000	2009 £'000
Operating leases which expire:		
Within 1 year	-	260
In the second to fifth years	35	16
Over 5 years	-	-
	<u>-</u>	<u>-</u>

16. Statement of funds

	At 1 April 2009 £'000	Opening transfers between reserves £'000	Restated balance at 1 April 2009 £'000	Income £'000	Expendi- ture £'000	Net movement on invest- ments and re- valuation £'000	Transfers between reserves £'000	At 31 March 2010 £'000
Unrestricted funds								
Designated funds:								
Capital assets reserve	28,887	(28,887)	-	-	-	-	-	-
Designated funds expended on acquisitions	5,468	(5,468)	-	-	-	-	-	-
Designated funds for purchase of heritage assets	2,014	-	2,014	-	-	-	2,122	4,136
Designated funds for the acquisition of Titian's Diana & Actaeon	8,325	-	8,325	-	-	-	(5,750)	2,575
Trust funds designated for purchase of heritage assets	11,677	-	11,677	587	(63)	2,649	-	14,850
Total designated funds	56,371	(34,355)	22,016	587	(63)	2,649	(3,628)	21,561
General funds	1,993	-	1,993	28,405	(25,752)	-	(2,369)	2,277
Total unrestricted funds	58,364	(34,355)	24,009	28,992	(25,815)	2,649	(5,997)	23,838
Restricted income funds								
Land & buildings reserve	126,549	(126,549)	-	-	-	-	-	-
Capital assets reserve	51,806	129,703	181,509	3,591	(3,477)	(1,438)	399	180,584
Building revaluation reserve	-	3,870	3,870	-	-	(3,870)	-	-
Plant & machinery revaluation reserve	-	21,863	21,863	-	-	(1,882)	-	19,981
Donated works of art reserve	101,125	5,468	106,593	3,657	-	-	5,600	115,850
Exhibitions programme fund	120	-	120	757	(756)	-	-	121
Running cost fund	452	-	452	615	(645)	-	(2)	420
Curatorial fund	1,509	-	1,509	28	(34)	-	-	1,503
Collection purchases fund	41	-	41	-	-	-	-	41
Collection purchases trust fund	263	-	263	379	(27)	780	-	1,395
Trust funds for acquisition of Titian's Diana & Actaeon	3,175	-	3,175	-	-	-	-	3,175
Art historical research	1,350	-	1,350	93	(11)	306	-	1,738
Total restricted income funds	286,390	34,355	320,745	9,120	(4,950)	(6,104)	5,997	324,808
Capital funds								
Collection purchase endowments	2,322	-	2,322	-	-	527	-	2,849
Art historical research endowment	789	-	789	-	-	179	-	968
General purpose endowments	1,128	-	1,128	-	-	256	-	1,384
Total capital funds	4,239	-	4,239	-	-	962	-	5,201
Total funds	348,993	-	348,993	38,112	(30,765)	(2,493)	-	353,847

Opening transfers between funds

The Gallery has reviewed its disclosure of reserves representing capital and heritage assets. The opening transfers shown above represent the reclassification of capital reserves from unrestricted into restricted funds, on the basis that once unrestricted funds have been expended on capital or heritage assets they become restricted in nature.

Fair Value Reserve (Investments)

	As at 1 April 2009 £'000	Unrealised gains/losses under fair value £'000	Realised gains/losses under fair value £'000	As at 31 March 2010 £'000	Reserve/ Fund net of fair value as at 31 March 2010 £'000	Reserve/ Fund (inc fair value) as at 31 March 2010 £'000
Unrestricted						
Trust funds designated collection purchases	(1,314)	2,649	–	1,335	13,515	14,850
Restricted						
Collection purchases trust fund	(398)	780	–	382	1,013	1,395
Trust funds for acquisition of Titian's Diana & Actaeon	–	–	–	–	3,175	3,175
Art historical research	(156)	306	–	150	1,588	1,738
	<u>(554)</u>	<u>1,086</u>	<u>–</u>	<u>532</u>	<u>5,776</u>	<u>6,308</u>
Capital funds						
Collection purchase endowments	(288)	527	–	239	2,610	2,849
Art historical research endowment	(97)	179	–	82	886	968
General purpose endowments	(140)	256	–	116	1,268	1,384
	<u>(525)</u>	<u>962</u>	<u>–</u>	<u>437</u>	<u>4,764</u>	<u>5,201</u>
	<u>(2,393)</u>	<u>4,697</u>	<u>–</u>	<u>2,304</u>	<u>24,055</u>	<u>26,359</u>

Analysis of funds

The Statement of Funds comprises a number of individual funds which divide into distinct categories as defined below:

Unrestricted Funds

- Funds designated for the purchase of Titian's 'Diana & Actaeon' were allocated by the trustees in the prior year. The transfer to restricted funds represents the value of designated funds expended on the acquisition during the year.
- Capital assets reserve comprises funds applied towards the purchase of equipment and building works. This has been reclassified as restricted.
- Designated funds expended on acquisitions represents the value of collection acquisitions made since 1 April 2001 from unrestricted funds. This has been reclassified as restricted.
- Trust funds designated collection purchases comprises funds designated for the acquisition of works of art for the collection and held within the Trust Funds.
- General funds are funds applied for general use.

Restricted funds

- Land & buildings reserve comprises funds in respect of the Gallery's land and buildings.
- Capital assets reserve comprises funds raised specifically towards the purchase of equipment and building works.
- The donated works of art reserve represents the value of works of art donated to the collection either by gift or by way of funds for acquisition subsequent to 1 April 2001 and capitalised.
- Exhibitions programme reserve comprises funds raised specifically towards the financing of the Gallery's exhibition programme.
- Running cost funds are funds raised specifically for the financing of running costs projects, including educational projects.
- Curatorial funds are funds raised specifically for the financing of curatorial activities, including the funding of certain curatorial posts.
- Collection purchases funds comprise grants received specifically towards the acquisition of works of art for the collection.

- Collection purchases trust funds comprise grants received specifically towards the acquisition of works of art for the collection and held within the Trust Funds and £3.2m of these funds will be used in funding the acquisition of Titian's 'Diana and Actaeon'.
- Art historical research represents funds raised specifically towards the financing of curatorial research into the collection and held within the Trust Funds.

Capital funds

- Collection purchase endowments comprise funds donated where the income may be applied only to collection purchases, while any capital growth must be retained in the endowment.
- Art historical research endowment represents funds donated where the income may be applied only towards the cost of research into the collection, while any capital growth must be retained in the endowment.
- General purpose endowments comprise funds donated where the income may be applied to general expenditure, while any capital growth must be retained in the endowment.

In year transfers between unrestricted and restricted funds reflect restricted income received during the year where the relevant expenditure had been incurred and allocated against unrestricted funds in earlier years.

17. Notional cost of capital

Notional cost of capital is calculated as 3.5% (2008/09: 3.5%) of the average capital employed by the Gallery in the year less the value of assets funded by donations.

	Unrestricted Funds £'000	Restricted Funds £'000	Total Funds 2010 £'000	Total Funds 2009 £'000
Notional cost of capital	(402)	(2,485)	(2,887)	(3,637)
Reversal of notional cost of capital	402	2,485	2,887	3,637
Net notional costs	—	—	—	—

18. Analysis of net assets between funds

	Unrestricted Funds £'000	Restricted Funds £'000	Permanent Endowment £'000	Total Funds 2010 £'000	Total Funds 2009 £'000
Tangible assets	—	200,565	—	200,565	207,242
Heritage assets	16,777	115,850	—	132,627	130,865
Investments	15,951	3,133	5,201	24,285	18,933
Other net assets	(8,890)	5,260	—	(3,630)	(8,047)
Total net assets	<u>23,838</u>	<u>324,808</u>	<u>5,201</u>	<u>353,847</u>	<u>348,993</u>

19. Notes to the cash flow statement

	2010	2009
	£'000	£'000
a. Reconciliation of changes in resources to net inflow from operating activities		
Net incoming resources before transfers, notional costs and other recognised gains and losses	7,347	36,440
Receipts from sale of tangible fixed assets	(14)	–
Investment income	(970)	(1,608)
Unrealised foreign exchange loss/(gain)	(206)	206
Donated collection acquisitions	(1,675)	(56,500)
Depreciation charge	3,477	3,384
Decrease/(increase) in debtors	15,942	(29,918)
Increase/(decrease) in creditors	(17,990)	52,588
Decrease/(increase) in stocks	(1)	–
Net cash inflow from operating activities	<u>5,910</u>	<u>4,592</u>
b. Management of liquid resources		
Increase/(decrease) in liquid investment portfolio deposits	(5,432)	980
Management of liquid resources	(5,432)	980
Liquid resources comprise cash in deposits with a maturity of more than 24 hours, excepting cash held specifically as part of the investment portfolio or for investment purposes.		
c. Reconciliation of net cash flow to movement in net funds		
Increase in cash in the year	7,533	556
Cash balance at beginning of year	12,151	11,595
Cash balance at end of year	<u>19,684</u>	<u>12,151</u>
d. Composition of the cash balance at the end of the year		
Balance with Government Banking Services	2,203	2,159
Balances held with commercial banks	17,478	9,983
Cash in hand	3	9
	<u>19,684</u>	<u>12,151</u>

20. Related Party Transactions

The National Gallery is a Non-Departmental Public Body whose sponsor department is the Department for Culture, Media and Sport ("DCMS"). DCMS is regarded as a related party. During the year, the National Gallery has had various material transactions with DCMS and with other entities for which DCMS is regarded as the parent department. The National Gallery also entered into material related party transactions with other related parties during the year, as set out below.

Related Party	Nature of relationship	Value of income received during the year £'000	Value of expenditure during the year £'000	Outstanding balances due from/(due to) at year end £'000	Nature of transactions
American Friends of the National Gallery, London, Inc	Mr Mark Getty, director of the related party, served as trustees of the National Gallery during the year	22	–	6	Grants for Technical Bulletin, strengthening the curatorial department and development of the website.
Ashmolean Museum, Oxford	Mr James Fenton, a trustee of the National Gallery, is a Visitor	–	26	–	Reimbursement for costs they incurred in relation to the DCMS Strategic Commissioning Project.
British Museum	Entity sponsored by DCMS	4	24	4	Internal audit fee.
John S Cohen Foundation	The Chairman of the John S Cohen Foundation is married to a member of the National Gallery's Executive Committee	20	–	–	Donation towards an Education Department project.
KPMG LLP	Mr Gautam Dalal, a partner of the related party until March 2010, served as a trustee of the National Gallery during the year	–	31	–	Consultancy services
National Gallery Company Ltd	Mr Simon Burke, a director of the related party, served as a trustee of the National Gallery during the year	808	129	416	Rent for commercial space within the National Gallery and payment for publications
National Gallery Trust	Mr Simon Burke and Mr Mark Getty, trustees of the related party served as trustees of the National Gallery during the year	57	–	–	Grants for specific projects and accounting fee
National Museums Liverpool	Entity sponsored by DCMS	–	22	–	Reimbursement for costs they incurred in relation to the DCMS Strategic Commissioning Project.
National Portrait Gallery	Entity sponsored by DCMS	226	1	17	Utility supply and electrical main upgrade recharges
Natural History Museum	Entity sponsored by DCMS	–	8	–	Fee for Museum Directors' Conference
The NGT Foundation	Mr Mark Getty and Lady Heseltine, trustees of the related party, served as trustees of the National Gallery during the year	47	–	–	Rental of office space, annual management and accounting fee recharge
The National Heritage Memorial Fund	Entity sponsored by DCMS	1,667	–	3,297	Donation towards the acquisition of Titian's Diana and Actaeon.
		2,851	241	3,740	

The Gallery considers the National Gallery Trust to be a related party because three trustees of the National Gallery also sit on the board of the National Gallery Trust. The National Gallery Trust is an entirely separate charity with an independent board of trustees, the majority of whom are unconnected with the National Gallery. Neither the National Gallery Trust, nor its wholly-owned subsidiary the National Gallery Company, are consolidated into the accounts of the National Gallery.

21. Post Balance Sheet Events

The financial statements were authorised for issue by the Accounting Officer and Trustees on the date shown on the audit certificate. There were no post balance sheet events to report.



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