

MUSEUMS AND GALLERIES ACT 1992

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

National Portrait Gallery Annual Report and Accounts 2007-2008

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ORDERED BY THE HOUSE OF COMMONS TO BE PRINTED 21 JULY 2008

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ISBN: 978 0 10 295746 4

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TRUSTEES' AND ACCOUNTING OFFICER'S ANNUAL REPORT

INTRODUCTION

The Trustees of the National Portrait Gallery have pleasure in submitting their Annual Report and Accounts for the year ended 31st March 2008. The Accounts have been prepared in a form directed by the Secretary of State for Culture, Media and Sport with the consent of the Treasury in accordance with sections 9(4) and 9(5) of the Museums and Galleries Act 1992 and are presented in accordance with the reporting requirements of the Statement of Recommended Practice (revised 2005), *Accounting and Reporting by Charities*.

The Annual Report sets out:

- the Gallery's structure, governance and management, including administrative details of the Gallery, its Trustees and advisers; and
- our aims and objectives, our strategy in achieving them, highlights of our performance during the past year (including performance against the agreed targets set by Department for Culture, Media and Sport) and our plans for future periods.

STRUCTURE, GOVERNANCE AND MANAGEMENT (INCLUDING ADMINISTRATIVE DETAILS)

Constitution

The Museums and Galleries Act 1992 established the corporate status of the Board of Trustees of the National Portrait Gallery. This act superseded the Treasury Minute of 2 December 1856 by which the Gallery was originally established. The National Portrait Gallery is recognised as an exempt charity under the provisions of the Charities Act 1993.

History and Background

The National Portrait Gallery was founded in 1856 to collect and display portraits of eminent British men and women. The first acquisition to be registered was the portrait of Shakespeare, known as the 'Chandos' portrait. From its earliest days the Gallery has also collected extensive reference material relating to portraiture which has developed into a unique national resource. In the 1960s the Photographs Collection was revitalised and in 1969 portraits of living people were for the first time admitted to the collection. Today it is among the largest and most prestigious collections of portraits in the world.

As well as a permanent display of portraiture from the sixteenth century to the present day, the Gallery provides a wide range of special exhibitions and displays. The Gallery's Learning and Access department runs extensive education and outreach programmes for schools, colleges, families and visitors in general, promoting access to and understanding of the collections to a broad range of audiences.

The Primary Collection of paintings, sculpture, miniatures, drawings, prints and photographs contains some 10,870 portraits of the most famous people in British history. Of these more than 4,150 are paintings, sculptures and miniatures, approaching 60% of which are regularly displayed at the National Portrait Gallery or elsewhere. In addition, there are some 6,500 works on paper, shown on a rotating basis of about 300 items a year. Normally items not on display can readily be made available for viewing via the Collections Manager. The Collection is also made widely available via the Portrait Explorer in the IT Gallery, by CD-Rom, on the internet (at www.npg.org.uk) and in Gallery and other publications.

The Gallery also holds Reference Collections as a national resource; they form an image bank of the nation's famous and less famous faces. They are used for study and exhibition, and have been extensively reproduced in books and other publications. There are more than 320,000 images in the Reference Collections, divided between the Archive Collection of about 80,000 items, mainly prints but also 2,000 drawings, 60 paintings and 100 sculptures, almost all relatively modest in nature, and the Photographs Collection of more than 240,000 photographs and historic negatives. The Heinz Library contains 35,000 books and some manuscripts.

The collection has been housed at St Martin's Place since 1896. The building, designed by Ewan Christian, was the gift of William Henry Alexander. An extension was built in the 1930s from funds provided by Sir Joseph (later Lord) Duveen. 1993 saw the opening of a permanent home in Orange Street for the Gallery's archive and library, funded by the Drue Heinz Foundation, together with new offices and a conservation studio. The most recent addition was the Ondaatje Wing in 2000, providing additional gallery space, improved visitor facilities and a new lecture theatre, funded by Sir Christopher Ondaatje, the Heritage Lottery Fund and several donors. In 2004, the refurbished Regency display in the Weldon Galleries completed a ten year programme of buildings renewal.

The Gallery has ongoing national partnerships with Montacute House in Somerset, Beningbrough Hall in Yorkshire (both National Trust properties) and at Bodelwyddan Castle in Clwyd (by arrangement with Bodelwyddan Castle Trust). Partnerships have also been formed with museums and galleries in the North East and the South West of England, and there are ongoing loan and display arrangements with other galleries and homes.

Structure, Governance and Management

The Gallery is a Non-Departmental Public Body supported by the Department for Culture, Media and Sport. A Board of sixteen trustees (including the Gallery's two *ex-officio* Trustees), appointed by the Prime Minister on the recommendation of the Secretary of State for Culture, Media and Sport with oversight by the Commissioner for Public Appointments, meets quarterly. Trustees have responsibility for overseeing the Gallery's affairs, determining the policies and overall strategy for the organisation. Trustees are expected to provide critical commentary on the current activities of the Gallery and to determine its overall direction for the future. Outside Trustee meetings, it is assumed that they will make themselves available for consultation and specialist advice, whenever appropriate, as well as acting externally as advocates for the Gallery and assisting in the processes of fund-raising. There is a committee of the Board which covers audit and compliance. The Gallery also has a development board to support fundraising initiatives.

A list of Trustees during 2007/08 and up to the date on which the accounts were signed is at page 27. Following their appointment, new Trustees are given a Trustees' handbook, policy papers and a full induction about the National Portrait Gallery and their terms of appointment, duties, rights and responsibilities. There is a Register of Trustees' Interests, disclosing details of company directorships and other significant interests held, which is open to the public and can be accessed in The Heinz Archive and Library.

The Director of the Gallery is Sandy Nairne. The appointment of the Director is made by the Trustees and approved by the Prime Minister. The Director is responsible for the overall leadership of the Gallery, its programmes of activities, the soundness of its financial, business and financial planning and its external representation. The Director leads the Management Team, which carries responsibility for developing the work of the Gallery, and debating and deciding on particular initiatives within the policies set by the Board. The Management Team takes responsibility for evaluating current work and initiatives, as well as reviewing policies, and is supported by a Planning Team, which reviews the Business Plan, the Risk Register and monitors budgets and financial matters. The Management Team meets fortnightly and also has an annual strategic review day.

The Gallery has regular Curatorial meetings, where all matters relating to acquisitions and loans are discussed, an Exhibitions Committee and groups for the development of Displays, Design, Publications, Digital Programmes, National Programmes and Interpretation.

Details of the Gallery's external advisers are at pages 27 and 28.

The Gallery's address is 2 St Martin's Place, London, WC2H 0HE.

OBJECTIVES

Objects and Key Policies of the Gallery

The overall aims of the Gallery, derived from the Museums and Galleries Act 1992, are:

- To promote through the medium of portraits the appreciation and understanding of the men and women who have made and are making British history and culture

- To promote the appreciation and understanding of portraiture in all media.

In pursuing these aims the Gallery recognises the need to make the most efficient use of its assets and to generate income to supplement government grants. This income is generated from activities such as sponsorship, corporate and individual membership schemes, publishing and trading. Grant-giving bodies provide welcome support for acquisitions and projects. The Gallery has had a number of successful fundraising campaigns for its capital projects and major acquisitions.

The Gallery does not charge for general access to permanent Collection displays. Temporary exhibitions are partially funded by sponsorship, by admission charges for exhibitions in the Wolfson and Porter Galleries, and by retail sales associated with the exhibitions made through the Gallery's wholly owned trading subsidiary company. Earning revenue in addition to the government's Grant-in-Aid allows a wider public programme to be offered.

The National Portrait Gallery is an equal opportunities employer. The development of working practices and a working environment that facilitate this, in particular with regard to the employment of disabled persons, are key objectives, as embodied in its combined Equality Scheme (see page 19). The Gallery has a comprehensive policy and training programme aimed at securing the health, safety and welfare of its employees.

Gallery employees are involved in the development of policies, strategic plans and performance targets through corporate planning and performance management procedures. Management meetings and newsletters provide a regular means for the consideration of issues and dissemination of information to staff throughout the year. Regular meetings between staff and management ('Whitley Council' meetings) provide a forum for discussion of staff issues. The Gallery continues to receive valuable support from volunteers, as detailed on page 19.

Objectives and Targets

The three-year Funding Agreement with the Department for Culture, Media and Sport for 2005 to 2008 includes seven key targets relating to audiences, income generation and efficiency. Funding Agreement targets are reviewed annually and revised where appropriate. Reference is made to these targets throughout the Annual Report with the Gallery's achievement against the 2007/08 targets (with comparators for previous years, where appropriate) detailed on page 29.

The 2004 to 2009 Corporate Plan established six primary objectives for the Gallery's three-year business plans as follows:

Charitable activities

- To extend and broaden the range of audiences for the National Portrait Gallery and its work;
- To develop the Collection, creating opportunities for acquisition and commission, while improving its care and conservation;
- To increase the understanding of and engagement with the Collection and its subjects through bringing more of the reference collections into use, and through outstanding research, displays and exhibition, education, access, publishing, information, regional and digital programmes, and a higher national and public profile;

Increasing and developing resources

- To maximise the financial resources available through both public and private sector support, trading and licensing and through the effective management of the Gallery's assets and resources;
- To develop staff as an essential resource through the extension of staff diversity, training, development and learning programmes; and
- To bring the buildings, technical and managerial infrastructure of the Gallery to the highest standards, including processes, systems, collection storage and staff accommodation.

ACTIVITIES, PERFORMANCE AND PLANNED FUTURE DEVELOPMENTS

1) Extending and broadening audiences

Visitor numbers

The Gallery welcomed over 1.64 million visitors during 2007/8, a figure driven by a programme of popular exhibitions and a communications strategy that successfully attracted key target audiences. The Gallery continued the strong performance achieved in 2006-07, during which a record 1.66 million visitors visited the Gallery – as a result of the very successful *David Hockney Portraits* exhibition – with the 2007-08 visitor number figure only 19k lower. This exceeded the 2007/08 target of 1.55 million set in the Funding Agreement with the Department for Culture, Media and Sport. The Gallery was the eleventh most visited UK attraction in the 2007 survey by the Association of Leading Visitor Attractions, and within the top 10 most visited attractions in London. Including the 320,160 visits made to national partners (219,000 in 2006/07), total visitor numbers were 1.97 million, compared to 1.87 million in 2006/07.

Over 66,000 visitors saw *Face of Fashion*: 40% of them had never been to the Gallery before (compared to 32% in 2006-07) and 41% were aged under twenty-five. *Pop Art Portraits* also encouraged a new, young audience; over half were under thirty-four years old and 44% were on their first visit. *Between Worlds* was seen by 128,000 people, 49% of whom originated overseas and 9% of whom came from minority ethnic groups. The *BP Portrait Award 2007* attracted over 195,000 for the second year running. A record entry of 1,876 was received, the highest ever for the competition to date. The *2007 Photographic Portrait Prize*, launched in November, attracted 93,829 visitors – 6,000 more than for the 2006 Prize – and also registered a record entry of 6,072. Following a special marketing campaign promoting the family activities linked to the exhibition, the number of children aged eleven and under increased by 6% year on year.

Other successful exhibitions undertaken during the year included *Great Britons*, *Daily Encounters*, *Vanity Fair Portraits* and *Brilliant Women*. *Vanity Fair Portraits*, which opened on 14 February, attracted a large number of visitors from the start, and by 31 March it had received 59,700 visits. (By the time *Vanity Fair Portraits* closed on 26 May, it had received 121,402 visits). Earlier in the year, the Gallery mounted a display and special trail devised for the commemoration of the 200th anniversary of the first Act of Parliament for the abolition of the slave trade.

Contributing to the repeat visits are the Gallery's valued Members, whose numbers were boosted in 2007/08 by the success of *Vanity Fair Portraits*. Improved retention rates, and a concerted effort from the Gallery's Visitor Services Team, increased membership by an impressive 24% to 4,348 at 31 March 2008 from 3,500 at 31 March 2007.

There were 82,000 visits during the year by adults in socio-economic categories NS-SEC groups 5-8 (defined by the Office of National Statistics as lower supervisory and technical, semi-routine and routine occupations, never worked or long-term unemployed), compared to 107,000 visits in 2006/07; the total exceeded the 80,000 target in the Funding Agreement by 2.5%. There were 151,000 visits by children, a 78% increase compared to the 85,000 visits in 2006/07 and easily achieving the 100,000 target under the Funding Agreement.

The Gallery continues to offer learning opportunities to a wide range of audiences, including school groups, families, adults, academic groups and visitors with disabilities. In all, there were 95,100 participations by learners in on-site and outreach classes, lectures and other activities during 2007/08 (a 9% increase on the 87,000 participations in 2006/07). Against the 42,500 target in the Funding Agreement, the total number of children participations in organised educational programmes during 2007/08 was 45,200 (a 7% increase from 42,400 in 2006/07).

Complementing the public programme, the Gallery's website continued to grow in popularity and to improve access to the Gallery's collections and work. The website registered 14.8 million user sessions by nearly 5 million people during 2007/08, a 48% increase on the previous year's figure of 10 million and comfortably achieving the Funding Agreement target of 6.75 million. The Gallery has the fourth most visited art website in the country (source: Hitswise, February 2008) with 55% of all visits being linked to searching the collection.

Market research and evaluation

The Gallery's programme of audience research, conducted by Morris Hargreaves McIntyre, has continued with a year-round exit survey and a major qualitative project incorporating focus groups and segmentation analysis. Results indicate that the Gallery continues to attract a younger audience, with 49% of all visitors aged under thirty-four. The visitor profile has also become more diverse: 10% were from black and minority ethnic groups (compared to 5% in 2006-07), and 34% were from overseas (compared to 30% in 2006-07). Enjoyment and satisfaction levels remain very high; almost all (98.5%) of participants questioned in visitor research said they would be likely to recommend the Gallery to their friends.

The communications campaign for the *Face of Fashion* exhibition won three major accolades. The marketing campaign achieved the gold award for an Exhibition Campaign in the International Museum Communication Awards 2007. The jury felt that it was 'well executed with high impact and strong stand-out'. The Gallery received a silver award in the Visit London Awards Marketing/PR Campaign of the Year 2007; it was commended for its 'successful combination of traditional media and new media channels' and was cited as 'a great example of carefully targeted marketing'. The Gallery also received a 'highly commended' award in the Marketing Campaign category at the Museums & Heritage Awards for Excellence.

Late night opening

The focus on Thursday evenings is the popular high-profile talk/lecture, while on Fridays it is the music series, which has built up considerable momentum. Highlights during the year included students from the Royal College of Music being inspired by the *Photographic Portrait Prize* and a composition based on a sermon by John Donne, performed by Benjamin and Raphael Wallfisch. Performances by young people also feature on Friday evenings. Eleven young people took part in a lyric writing course, inspired by Sonia Boyce's *Devotional* exhibition. Their creative responses resulted in a public performance. The Gallery is very busy on the special GLA 'Lates' evenings: *Fashionista Friday*, for example, brought in over 2,000 visitors. There is still considerable scope for attracting visitors to Thursday and Friday evening events and this will be an aspiration for forthcoming initiatives planned for 2008/9.

Families and young people

The numbers of families attending activities and visiting the Gallery increased from approximately 121,000 in 2006/07 to 248,000 in 2007/08. The increase was as a result of a special marketing campaign promoting family activities linked to the *BP Portrait Award*. The activities included the introduction of family-friendly labels and a portrait-making family interactive to encourage more families to the *BP Portrait Award* exhibition, using characters from award-winning illustrator Lauren Child's 'Charlie and Lola'. Self-directed resources for families will be developed in the next year for use across the Gallery. These will assist in supporting children and their adult carers in understanding portraits, making connections and telling stories associated with the people depicted.

A 'write your own caption' competition for eleven to twenty-one-year-olds was offered online, with texts written by members of the Gallery's Youth Forum. This was the first example of user-generated content, and it served as a useful experiment in an area that will be developed when the new website is delivered.

The Forum now has twelve active members who meet regularly. Some members have already completed the Arts Award Bronze, a national qualification for eleven to twenty-five-year-olds that develops and assesses both arts-related skills (arts knowledge and understanding) and transferable skills (creativity, communication, planning and review, teamwork and leadership).

Adults, schools and colleges

The schools programme had another successful year providing primary and secondary programmes and resources for history, art and photography. The focus is on cross-curricular teaching, citizenship and the new vocational 14-19 Diplomas, all factors that will be affecting teaching and learning in secondary schools over the coming year.

The Adult programme continues to evolve, with Gallery talks, lunchtime or late-night lectures and performances to meet different interests and encourage new and diverse ways to work with the Gallery's subjects, displays and exhibitions.

Highlights have included Chuck Close on his forty-year career at the forefront of contemporary portraiture, in conversation with the biographer Christopher Finch, and the UK première of a documentary on the Chinese-American movie star Anna May Wong, which was screened as part of our Chinese New Year Celebrations.

Partnerships with universities have brought additional expertise to the Adult programme. 'Inside and Outside the Codes of the Photographic Archive' was a popular study day run in collaboration with the London College of Communication.

Boosted by the successful public programme and conferences, Learning and Access income increased by 11% compared to 2006/07.

Outside the Gallery

About 200 children and young people have taken part in a new and innovative Hospital Schools outreach programme launched to accompany *Pop Art Portraits*. Using the exhibition as a starting-point inspired work with artists, animators and photographers on a multi-media project focusing on animation and collage. The programme was launched with a ten-day animation project at the Evelina Children's Hospital (part of Guy's Hospital) in November. Developed in partnership with exhibition sponsors Lehman Brothers, the programme will result in a report, which it is hoped will be a blueprint for best practice for museums and galleries working with hospital schools.

The Gallery worked in partnership with the Wallace Collection to develop a one-day pilot project with adults with mental health issues. Training for Visitor Services staff to deliver touch tours to partially sighted and blind visitors has been arranged in partnership with the V&A and RNIB.

The Studio Gallery

The final exhibition in the *Reaching Out, Drawing In* series closed in August 2007, following a positive response from both project participants and exhibition visitors. *Four Corners*, developed in partnership with four London cultural venues and four community groups, celebrated the rich diversity of the city. Following the closure of the exhibition at the Gallery, the work toured to local venues across London. Partnerships initiated as part of this project are being developed by the young people's and access programmes. Over the duration of the project 29,980 visitors viewed the exhibitions.

National programme

National partnerships

At Montacute House the portrait of Lady Anne Carlton was reunited for a year with that of her husband, and the Gallery has been working with MA students from Bristol University on a display project to take place in late 2008. A new Gallery publication, *Tudor and Jacobean Portraits*, highlights many of the portraits at Montacute House.

Making Faces: the displays at Beningbrough Hall continued to be extremely successful and involved targeting new audiences. A range of activities was organised as part of this programme. The visiting portrait exhibition celebrating the Act of Union in 1707 between England and Scotland was very well received.

Bodelwyddan Castle, the National Museums Wales and the Gallery saw the successful exhibition *Visitors to Venice*, which included key impressionist works from the National Museums Wales. The exhibition was part of the National Museums of Wales's 'Art Share Wales' initiative, funded by the Esmée Fairbairn Trust.

People, Places and Portraits

The DCMS/DCSF National/Regional Museums Partnerships Education programme created programmes of activity with children at both primary and secondary levels as well as community audiences. 12,350 children and families took part in programmes at Montacute House and Beningbrough Hall as part of the programme.

Collaborations involved Sunderland Museum and Winter Gardens with *Pop Stars: Photographs from the National Portrait Gallery*, which included workshops for schools involving writers, poets and young musicians. Sheffield Galleries and Museums Trust worked with a group of young people on an interpretation project called *The Diary Room: Characters of the 17th Century*. Activities included photographic portraits of the young people based on the

portraits on loan and a murder-mystery-themed trail aimed at young visitors. Plymouth City Museum and Art Gallery worked with the Gallery, young people and teachers on learning activities around the 2007 bicentenary of the Act of Parliament abolishing the slave trade in Britain.

Partnerships with Regional Museums Hubs

The Partnership with the North East Museums Hub produced *North Face: Photographs from the National Portrait Gallery* (displayed at separate venues throughout the region) and *A Blueprint for Life: Designers Photographed by Steve Speller* at the Shipley Art Gallery, Gateshead. The South West Museums Hub saw an exhibition at Plymouth City Museum and Art Gallery and loans to the Royal Cornwall Museum, Truro.

Loans

The Gallery has lent to a range of exhibitions and venues, reflecting both the diversity and the importance of the collections. 631 works were lent to 57 temporary exhibitions or displays in the UK and 29 abroad, while 5,648 were lent to 57 venues on a longer-term basis. Portraits featured prominently in three of the major UK exhibitions commemorating the 1807 Act for the abolition of the slave trade. The Gallery is now a pilot project for the Effective Collections Scheme, funded by the Museums Association and Esmée Fairbairn Trust to increase the numbers of works on loan to venues around the country.

Subject Specialist Network

Following an implementation grant for the Network from the MLA, the Gallery has worked on a range of activities, with steering group partners the National Trust, the North East Museums Hub, the South West Museums Hub and the Oxford Dictionary of National Biography. A Seminar was held at the Gallery for 70 museums and galleries on regional portraiture; three online toolkits were commissioned and a mapping exercise of portrait collections and those with portrait expertise will be available online.

Media collaboration

Media coverage throughout the year remained constant. A significant reach was achieved for *Vanity Fair Portraits: Photographs 1913–2008*, including many national news stories, an eight-page exclusive in *The Times* magazine and features in a number of broadsheets including the *Independent* and the *Guardian Weekend*. There were items on BBC 2's *The Culture Show*, BBC Radio 4's *Front Row* and BBC Radio 3's *Night Waves*.

The *BP Portrait Award*, with the extended age limit, attracted news coverage of the fifty-nine-year-old winner, Paul Emsley. For the first time there was a five-page colour feature on the work of a Travel Award winner, Toby Wiggins, in *The Times* magazine.

Pop Art Portraits enjoyed significant coverage including *Newsnight Review*, BBC TV's 10 O'Clock News and BBC Radio 4's *Front Row*. The opening Private View saw the largest gathering of British Pop artists for decades, captured for a picture story in the next day's *Evening Standard*.

Among displays, *21st Century Portraits*, with a photograph of the British actress Sienna Miller, was covered in publications as diverse as the *Daily Mirror*, the *Daily Telegraph* and the *Yorkshire Evening Post*. Features on *Devotional* ran in specialist magazines such as *Trace*, *Pride* and *Black History 36*. Other coverage during the year included items on the Gallery's acquisition of the David Hockney painting *Self-Portrait with Charlie* and the fund-raising appeal to acquire a portrait of the Jacobean playwright John Fletcher. In January, the announcement of the Lerner Foundation's gift to the Gallery of £5 million was covered by exclusive interviews in *The Times* and the *Birmingham Post* and an announcement on BBC Radio 4's *Today* programme.

Visitor Services

A number of new initiatives have been introduced during the past year with the aim of enhancing the visitor experience. These have included a temporary Information Desk on the entrance landing, which has been used as a collection point for pre-booked tickets, including tickets for Members and corporate supporters. The desk provides important information for new visitors, and there they can collect leaflets or buy the Visitor Guide. Ticket provision has been improved over the year: the Thursday evening adult programme, for instance, can now be booked via the Gallery's website. The Visitor Services team has continued to support the individual giving campaign by encouraging on-site Gift Aid donations, and in addition 25% of those who bought tickets online added Gift Aid to their purchase.

Visitor research over the year shows that enjoyment and satisfaction levels remain high, with 47% rating their visit as 'good' and a further 49% describing it as 'excellent'.

Finally, an LCD screen was added at the Information Desk, showing a short programme of Gallery highlights, temporary displays and exhibitions, and details of talks and events on that day. This has enhanced the provision of information to visitors, an area reviewed regularly.

2) Developing the Collection

Portrait Fund

The Gallery's Portrait Fund (the object of which is to assist the Gallery to acquire important portraits for the Collection and to cover the cost of related research, conservation, display and interpretation). The Fund benefited from substantial support, thanks to the generous commitment from the Lerner Foundation. This gift, to be made over three years, will be used to build up the Portrait Fund and to enrich specific vital programmes. A celebratory event with members of the Lerner family, friends and colleagues was held in the Lerner Galleries.

The fund operates under its own trust deed; the three founding Trustees of the Portrait Fund are David Cannadine, Amelia Chilcott Fawcett and Lady Douro, from the Gallery's own Board of Trustees. In 2006/07 Sir Christopher Ondaatje (a Gallery Trustee) and Matthew Freud became Trustees of the Portrait Fund.

The Portrait Fund to date has enabled the Gallery to purchase key acquisitions for the Collection including the portraits of John Donne and, recently, John Fletcher.

For further information about supporting the Gallery and the Portrait Fund please contact Pim Baxter, Communications and Development Director.

Acquisitions

The outstanding historic acquisition of the year was the panel portrait of the Jacobean dramatist John Fletcher, painted in about 1620, acquired after an appeal which was marked by the generosity of numerous supporters, led by The Art Fund. The outstanding modern acquisition was David Hockney's full-length painting *Self-portrait with Charlie*, acquired with help from the proceeds of the Gallery's 150th Anniversary Gala.

Historic portraits included the political economist David Ricardo, by Thomas Phillips, on loan from Christopher Ricardo, a cabinet photograph of Oscar Wilde taken in New York by Napoleon Sarony, the historic Lafayette photograph, *The Dreadnought Hoax*, taken in 1912, and two photograph albums, one relating to the Rossetti family, including images by Lewis Carroll, the other to Sidney and Beatrice Webb.

Other photographs included Edward Steichen's Charles Laughton from 1935, a group of fine mid-century vintage prints by Angus McBean, a substantial collection of 1970s photographs by the American photographer Bernard Schwartz, generously given with an endowment by the Bernard Lee Schwartz Foundation, and works by Corinne Day, Steven Klein, Paulo Roversi and Mario Sorrenti, acquired as a result of the *Face of Fashion* exhibition in spring 2007. Further photographic acquisitions are described below.

Twentieth-century acquisitions included portraits from the 1950s, 1960s and 1970s: Henry Lamb's *Self-portrait*, James Gunn's *Marchioness of Reading*, Ruskin Spear's *Sid James*, Raymond Skipp's *Sir Siegmund Warburg* and Maggi Hambling's *Victor Musgrave*. Particularly notable was Sylvia Sleigh's *The Situation Group*, 1961, showing many of the leading figures involved in abstract painting at the time. Among works by Tom Phillips were composer Sir Harrison Birtwistle, musician Brian Eno and zoologist Lord May. Other modern works included four self-portraits: paintings by Chris Ofili and Tony Bevan, Julian Opie's computer animation screen portrait and Ian Breakwell's stark *Parasite and Host*, made in the year of his death, 2005.

Two film works featuring in past exhibitions were acquired for the Collection, Peter Gidal's *Heads*, a film dating to 1969, and Marty St James and Anne Wilson's multi-monitor video portrait of the swimmer Duncan Goodhew, commissioned in 1990.

Commissions

Two portraits of Nobel Prize winners were commissioned as part of a drive to improve the representation of contemporary scientists in the Collection. Physicist and MRI scanner pioneer Sir Peter Mansfield was painted by Stephen Shankland as part of the First Prize in the *BP Portrait Award 2004*. Biochemist and cancer researcher Sir Paul Nurse was the subject of Jason Brooks's large-scale photo-realist painting, made possible by JPMorgan through the Fund for New Commissions.

A major group photographic commission, taken by Don McCullin, of ten prominent Faith and Church leaders was displayed in spring 2007.

Photographs

A wide variety of contemporary works were acquired, including images of Tina Brown by Emma Blau, Sienna Miller by Valerie Phillips and Alexander McCall Smith by Eva Vermandel. A successful new feature is a designated 'Photograph of the Month' focusing on topical people such as Michael Eavis by Paul Stuart at the time of the Glastonbury Festival and Thandie Newton by Lorenzo Agius for Fashion Week. Other contemporary acquisitions included cricketer Monty Panesar by Henry Browne, writer D.B.C. Pierre and animated film-maker Nick Park by Louis Quail, a group of Royal Academicians by Dennis Toff and a study of Banksy by James Pfaff.

From the recent past were Walter Hanlon's jazz personalities of the 1950s and Roger Perry's portraits of the 1970s. A display to celebrate the sixtieth anniversary of Camera Press resulted in welcome additions of historic photographs by the agency's founder, Tom Blau, as well as newly commissioned works from leading photographers represented by the agency such as Bryan Adams, Jillian Edelstein, Mary McCartney, Perou, Lord Snowdon and John Swannell.

The earlier part of the twentieth century was represented by two important group purchases: fifteen photographs of Elisabeth Welch by photographers such as Humphrey Spender, Paul Tanqueray, Canons of Hollywood and Kenneth Collins, and vintage prints by Gilbert Adams, Bertram Park and Yvonne Gregory of subjects such as Fay Compton, Isadora Duncan and the Earl of Carnarvon.

Important Victorian acquisitions included the novelist Dinah Craik by H.S. Mendelssohn, Charles Dickens in America by Rockwood and a self-portrait of the photographer Oliver Sarony.

Photographs taken by Nancy Hellebrand for her book *Londoners at Home*, published in 1974, were transferred to the Museum of London.

All acquisitions made in the last year can be accessed through the Gallery website.

The Heinz Archive and Library

Several important gifts were received, including books from the estate of Sir Oliver Millar, papers relating to Dr John Hayes (Director 1974–94), donated by Dr Morag Timbury and Derek Watson, and thirty-two albums of photographs of portraits by Frank Salisbury, offered by Richard Norris in 2007. A group of photographs relating to Salisbury's paintings for the Coronation of George VI was donated by Lorraine Wilson. Purchases included a portfolio of caricatures relating to *The Beggar's Opera* by Powys Evans and a self-portrait etching by Celia Paul, 2002. Gifts of portrait prints included a lithograph of Frederick Delius by Jacob Kramer, 1932, from John Stubbs; a mezzotint of Ann Catley by Robert Dunkarton, 1777, from Ronald Crawley; a *Vanity Fair* print of John Edward Redmond, 1904, by Sir Leslie Ward, from Terence Pepper; and a lithograph of Philip Meadows Taylor by Weld Taylor, c.1840, from John Shrive.

Care of the Collection

Programme activity this year has again been at a high level and has involved the teams in the preparation of a large number of works for loan, display and exhibition. The Gallery appointed a Collections Services Manager to strengthen its resources and commitment to care for the Collection.

The Collections Management team have researched and implemented improved storage for miniatures. The Art Handling team have developed their skills and expertise by undertaking a range of courier trips both in the UK and

abroad, working at Montacute House (seeing the challenges faced by an historic house) and assisting with the X-ray programme.

The Conservation studio has continued the programme of treatments and examinations as well as commencing a major project, *Making Art in Tudor Britain*. Sir Joshua Reynolds's *Dr Samuel Johnson*, attacked by a visitor in August 2007, is undergoing conservation, as is *Unknown man, formerly known as Richard Hooker* – which suffered accidental damage – and has led to improvements in procedures.

Frame Conservation has made new frames for *Self Portrait* by Tony Bevan and David Hockney's *Self-portrait with Charlie*. The studio also completed the final phase of a preventative conservation project at Montacute, providing a climate-buffered framing system for sensitive panel paintings.

Work with Tate on the development of the National Art Collections Centre continued and will do so next year.

3) Increasing the Understanding of and Engagement with the Collection

Alongside the development of the Collection itself, the Gallery researches and creates a large number of loan exhibitions devoted to different aspects of portraiture. The overall purpose of loan exhibitions, together with the digital programme, publishing and the Collection displays, is to increase the wider understanding and enjoyment of portraiture.

Exhibitions

The range and diversity of our exhibition programme continue to reflect our ambitions and have ensured significant press and public responses.

Wolfson Gallery

The *BP Portrait Award*, in its twenty-ninth year, received a record 1,876 entries this year. Sixty paintings were selected and seen by over 195,000 people in London alone. Paul Emsley painted the winning entry of Michael Simpson. The *BP Travel Award* winner, Toby Wiggins, spent four weeks travelling around Wessex painting a farming community in crisis, and produced a beautiful group of paintings of a very topical subject.

Pop Art Portraits opened in October 2007, and was shown in the Wolfson as well as the ground-floor galleries. It received a great amount of press interest and sparked a number of debates about the position of portraiture in Pop Art. The exhibition was designed by Stanton Williams.

Vanity Fair Portraits: Photographs 1913–2008 provided a great end to a successful year. It brought a close collaboration with *Vanity Fair* magazine, renowned for commissioning some of the best photographers in the field, and showcased outstanding portraits.

Porter Gallery

Daily Encounters: Photographs from Fleet Street opened in July 2007. The exhibition looked at the stories and photographers that made Fleet Street famous and included a wealth of vintage material including rare negatives, original newspapers, and film footage.

Jonathan Torgovnik won the *Photographic Portrait Prize* this year for his photograph of a mother and daughter in Rwanda who had experienced the horrors of genocide carried out in their country. The award received 6,900 entries, of which sixty were selected for the exhibition.

Brilliant Women: 18th-Century Bluestockings opened in March 2008. It explored the impact of independent and creative women on eighteenth-century British cultural and intellectual development. The exhibition showcased the personal artefacts as well as graphic satires and portrait paintings of key figures of the Bluestocking circle, including Elizabeth Montagu, Catharine Macaulay and Hannah More. By its closure in June 2008, it had attracted over 180,000 recorded visits.

The 2008/09 programme of loan exhibitions contains further outstanding opportunities for the public to enjoy historical, contemporary and photographic portraiture, including *Annie Leibovitz: A Photographer's Life, 1990–2005*, *Young in the Sixties: Beetles to Bowie* and *Wyndham Lewis*. These exhibitions will be followed in Spring 2009 by *Gerhard Richter Portraits*. Both the Annie Leibovitz and Gerhard Richter exhibitions will involve working closely with respected living artists.

The galleries and displays

The programme of changing displays is designed to reveal the hidden strengths of the Gallery's collection of drawings, prints and photographs, and increasingly to show occasional visiting portraits as a way of engaging with contemporary portrait practice and widening the range of portrait material.

There were several displays with an external focus. *Devotional*, a new interpretation of a work of art entitled *Devotional Series* by Sonia Boyce, presented portraits of black British female singers over the last century, with support from the Esmée Fairbairn Foundation. *Born 1947 – Camera Press at 60* celebrated the sixtieth anniversary of the photo agency Camera Press. *Shutting Up Shop*, a display of photographs by John Londei, focused on images of traditional small shops. The series of visiting portraits continued with *Anthony Caro Portraits*, bringing together four bronze heads of Sheila, the artist's wife.

Displays drawing on the Gallery's own collection included *Making History: Printed Portraiture in Tudor and Stuart Britain*, featuring the earliest of the Gallery's portrait prints; *John Kay's Curious Characters*, in the form of prints of Edinburgh society; *Lives and Letters*, one of several displays drawing on the Victorian collections; *Caricatures by Barry Fantoni*, celebrating a recent gift from this cartoonist; *Diana, Princess of Wales*, a photographic display to mark the tenth anniversary of her death; and *Yousuf Karsh*, a centenary display of photographs.

To enhance Gallery exhibitions, *Private View: British Pop and the 60s Art Scene* used photographs to complement the *Pop Art Portraits* exhibition, while *Victorian Women Historians*, along with *Modern Muses*, photographed by Bryan Adams, coincided with the *Brilliant Women* exhibition. Also notable were *The Artist's Process*, revealing how recent acquisitions of contemporary work were created, and *Athletes and Olympians*, showing great twentieth-century athletes.

Exhibition and display sponsorship

The Gallery enjoyed support this year from first-time sponsors as well as companies that had previously collaborated with it.

Getty Images provided valuable in-kind support for *Daily Encounters* by offering free-of-charge use of images from their archive. This both enhanced the exhibition's content and also significantly reduced the cost of its staging.

BP continued their invaluable support for the *BP Portrait Award 2007*, giving additional funding to enable the Gallery to promote the new age range, which opened up the Award to anyone over the age of eighteen. The Gallery was delighted to work once again with long-term supporter Burberry on *Vanity Fair Portraits*. Burberry helped to launch the exhibition in style with a celebrity-studded opening event in partnership with *Vanity Fair* magazine.

Herbert Smith LLP have continued their support of the Gallery for a fifth year in 2008 as the Spring Season sponsor. Hosting innovative client and staff events and enjoying workshops for their community groups, the successful partnership is planned to continue in 2009 and 2010.

A newcomer to exhibition sponsorship was Lehman Brothers, who supported *Pop Art Portraits*. A multi-faceted sponsorship programme was developed that included a *Pop Art*-themed ten-month hospital schools outreach project, funded by grants from Arts & Business and The Lehman Brothers Foundation Europe.

In November 2007, the Gallery was delighted to announce that Taylor Wessing, the European law firm (which previously sponsored *The World's Most Photographed*), will sponsor the *Taylor Wessing Photographic Portrait Prize* from 2008 to 2010. We look forward to working closely with them over the coming years and building on the success of this world-class photographic competition and exhibition.

The Gallery continues to benefit from the support of its Corporate Members and this year welcomed three new Corporate Members: Apax Partners, BT and Freshfields Bruckhaus Deringer.

Interpretation

Interpretation work is proceeding through the effective use of digital media for temporary exhibitions and permanent displays. The update of the Gallery's audio guide has fourteen new audio entries for primary Collection portraits on display. Five new audio guide tours have also been produced, including a 'Highlights' tour and thematic tours featuring 'Science and Discovery', 'Writers', 'Kings and Queens' and 'Fame and Celebrity'.

An exhibition audio guide was commissioned for *Pop Art Portraits*, featuring new interviews with a number of the artists in the exhibition as well as with the curator. A second version of the audio guide was available from the Gallery's website and on iTunes as a National Portrait Gallery podcast.

Digital developments

Website

Approximately 5 million visitors made almost 15 million visits to the Gallery's website, about 33% more than last year. The online collection search facility incorporates 106,228 portraits (up 10% from last year), 56,098 of which are illustrated.

4,231 online images can now be 'zoomified', allowing intriguing details to be discerned online. A 'Who's Who' online feature uses 'zoomify' to allow every person in 811 group portraits to be identified and seen in close-up.

Entry details related to 4,549 photographs were submitted online for the *Photographic Portrait Award 2007*, representing 65% of all submissions. The *BP Portrait Award 2008* saw 1,436 entries made online – 83% of all entries. These online facilities create great administrative efficiencies, freeing up resources to be spent on creating public access.

Digital Programmes participated in the development of mini-sites for the *Vanity Fair Portraits* and *Pop Art Portraits* exhibitions; a *BP Portrait Award 2007* blog (publishing public comments on works in the exhibition); and Learning and Access initiatives, such as online audio describing in detail around 150 portraits.

2,445 journalists are registered to download images for review of exhibitions and displays (up 52%). Subscribers to the Gallery's eNewsletter increased to 36,000 (up 6%).

The *Pop Art Portraits* and *Vanity Fair* exhibitions helped lift eCommerce income to £72,664 (up 27.8%).

The Portrait Explorer and IT Gallery

Visitors to the IT Gallery using the Portrait Explorer can now discover 27,000 sitters and artists in 50,000 portraits (up 10%).

Development of eLearning resources is proceeding in partnership with nine other national cultural institutions, under the auspices of the National Museums Online Learning Project.

Portrait Explorer developments included the addition of a recent acquisitions feature; transcriptions available side-by-side with digitised archive documents; and filtering options for search results, for example by gender, era and medium type.

On-site projects undertaken ranged from *Charlie and Lola* (an electronic activity for children visiting the *BP Portrait Award 2007*); assistance with electronic aspects of the *My Space* exhibition; set-up of *Pop Art Portraits* projections; and implementation of electronic visitor information in the Main Hall.

The Virtual Portrait activity at Beningbrough Hall saw 9,177 virtual portraits created by visitors. Portrait Explorer interactives were supplied to Plymouth City Museum and Art Gallery for use in association with the *Human Cargo* exhibition.

Digital images, index cards and the Portrait Printer

Standard digital images of over 6,000 previously unillustrated portraits were created, while over 5,000 specialised digital images were created on demand.

Information on 67,923 Photographs Collection index cards has been captured electronically. This project will result in 39,177 new records being added to the Gallery's collections management database, a 36% increase in the number of collection records available online.

49,252 portraits (up 9%) are available via the Portrait Printer service.

Research programmes

Good progress was made during the year on both of the Gallery's cataloguing projects, with major steps towards final editing and publication. Work on the art and architecture tranche of the catalogue of *Later Victorian Portraits* neared completion and entries are currently being edited. Plans to release these as an online resource were also further developed. Likewise the *Later Stuarts* catalogue neared the stage of copy-editing.

Two scholars were appointed to the Leverhulme Fellowship in the History of Portraiture. Dr Kim Sloan, Curator of British Drawings and Watercolours before 1880 and Francis Finlay, Curator of the Enlightenment Gallery at the British Museum, joined the Gallery for four months in the autumn to research an exhibition and publication on British portrait drawings and miniatures. Professor Marcia Pointon, formerly Pilkington Professor of History of Art at the University of Manchester, came to us in January for a six-month Fellowship to work on a project entitled *The Persistence of Portraiture*.

In May 2007 the Gallery began a major research project called *Making Art in Tudor Britain*. This project aims to explore the production of painted imagery in the Tudor period and will undertake detailed technical analysis on the Tudor and Jacobean collections. In support of this project the Arts and Humanities Research Council (AHRC) funded a series of three academic workshops and twenty-nine speakers presented papers on various aspects of early Tudor artistic practice. Abstracts of these papers can be found on the research section of the Gallery's website. We are currently seeking funding for four further years of research which will culminate in a major multi-author book, web-based material and an exhibition in 2013.

This was a productive year for individual members of the Gallery's staff. Carol Blackett-Ord wrote an article on the mezzotint publisher Richard Tompson for the seventieth volume of the *Walpole Society* (2008). Tarnya Cooper led the *Making Art in Tudor Britain* project, giving three papers at the AHRC workshops, and spoke at a conference on 'Material Culture' at the University of Birmingham. She also published 'Predestined Lives? Portraiture and Religious Belief in England and Wales 1560–1620', in *Art Reformed: Re-Assessing the impact of the Reformation on the visual arts*, edited by Tara Hamling and Richard Williams, and *A Guide to Tudor and Jacobean Portraiture*. Peter Funnell published an article on 'Display at the National Portrait Gallery, London, 1968–1975' in a special issue of *Art History*, examined theses at the Universities of Birmingham and Oxford, and continued as a Consultant Editor to the *Oxford Dictionary of National Biography*. Clare Gittings gave a paper at the biennial international conference on 'Death, Dying and Disposal' at Bath and published 'Eccentric or enlightened? Unusual Burial and Commemoration in England, 1689–1823' in the journal *Mortality*. Catharine MacLeod co-edited, with Julia Marciari Alexander, a collection entitled *Politics, Transgression, and Representation at the Court of Charles II*, for which they also jointly wrote a chapter: 'The "Windsor Beauties" and the Beauties Series in Restoration England'. Paul Moorhouse researched and wrote the *Pop Art Portraits* catalogue, contributed an essay on Andy Warhol's portraits to Sotheby's *Preview* magazine, and gave lectures on *Pop Art Portraits* at the Gallery and the Staatsgalerie, Stuttgart. He also wrote the exhibition catalogue essay *John Virtue Monotypes* for Marlborough Gallery and acted as adviser to the *Oxford Dictionary of National Biography* on twentieth-century art and design. Sandy Nairne was awarded a Summer Fellowship at the Clark Art Institute, Massachusetts, in July and August 2007, during which he pursued research relating to high-value art theft. Lucy Peltz researched and co-authored, with Elizabeth Eger, *Brilliant Women: 18th-Century Bluestockings*. Terence Pepper researched and co-authored *Vanity Fair Portraits* and Jacob Simon produced an online directory, *British picture framemakers, 1750–1950*, and a second revised and expanded edition of the directory *British artists' suppliers, 1650–1950*.

Cataloguing the Collection

The Gallery continues its substantial investment in cataloguing and digitising the Collection. 106,228 portraits (10% more than last year's total) have been catalogued. The aim is to have half the collection – 160,000 portraits – catalogued and available on the Gallery's database by 2009.

The Heinz Archive and Library compiled ISAD(G) compliant catalogues for the following record series: NPG Photographs, Annual Reports and Education Records. Other cataloguing focused on the two largest collections of prints: large-format engravings and an extra-illustrated set of the Rev. James Granger's *A Biographical History of England from Egbert the Great to the Revolution*. In total, 6,354 prints were digitised and 12,186 portraits were recorded for the image files and index in the study room.

In the Photographs Collection, a further 6,550 items have been catalogued. Priorities have included the collection of Victorian *cartes-de-visite*, in continuing support of the forthcoming catalogue *Later Victorian Portraits*. Among contemporary acquisitions added to the collections database are groups of photographs by Roger Perry and Dennis Toff, while earlier twentieth-century additions include the Strachey Trust collection, the Siegfried Sassoon collection and platinum prints by Eveleen Myers. Cataloguing of the Bassano studio negatives has continued, with over 3,100 added, dating from the late 1930s to 1942. The donation of 140 Bernard Schwartz dye transfer prints from the 1970s has been fully recorded with digitised images.

Publishing

The Gallery operates a highly successful publishing operation in a competitive retail environment. Its remit is to produce books that extend knowledge and understanding of portraiture, and of British history through portraits. But the challenge we face is how best to balance the need for books that support the Gallery's research profile with the need for books that can reach wide audiences and generate revenue.

This year we completed sixteen projects, including six exhibition catalogues, five co-editions, two reprints, and over 260,000 postcards. The percentage of visitors who buy a catalogue at our exhibitions varies dramatically, with a pick-up rate of 0.6% for *Between Worlds* compared with over 10% for *Vanity Fair Portraits*. However, the strong sales of both this and *Face of Fashion*, plus three unforeseen co-editions, enabled us to exceed our budgeted income set at the beginning of the year by 26%.

Four books, *Pop Art Portraits*, *Vanity Fair Portraits*, *Brilliant Women* and *A Guide to Tudor and Jacobean Portraits*, all contained new research by the Gallery's curators as well as external contributors. Two of these titles were sold to overseas publishers, and the National Trust shared a joint print-run for the Tudor and Jacobean guide.

Publishing partnerships have been a defining characteristic of the year. We started by producing a booklet on behalf of the National Portrait Gallery, Smithsonian Institution, to accompany their display of British portraits, followed swiftly by our on-going collaboration with *Vanity Fair* magazine, which will culminate with the launch of a major trade edition of *Vanity Fair Portraits* in September 2008. Likewise, we have maintained strong links with exhibition tour venues, including the Scottish National Portrait Gallery, the Staatsgalerie in Stuttgart and the Newcastle Regional Art Gallery, Australia.

The growth of the Gallery's international profile is reflected in our co-edition publishing partnerships: with Hardie Grant in Australia, Hatje Cantz in Germany, and Yale University Press in North America. These co-editions represent an important market for the Gallery, and we hope that an exciting touring programme will enable us to build on these sales in future.

Next year we will focus on how to balance successfully the development of a new range of visitor guides alongside the programme of exhibition and trade titles, all of which aim to provide enjoyment and insights into portraiture.

4) Increasing and Developing Resources

Financial summary

The Gallery received a 5% increase in revenue grant-in-aid funding and £170,000 capital funding from the Department for Culture, Media and Sport in 2007/8. As the Gallery's Grant-in-Aid funding represents around half of

total income (net of direct trading and fundraising costs and excluding income for building projects and donated acquisitions), self-generated income remains crucial to sustaining the breadth and quality of its activities. Self generated income (including trading income) exceeded the Gallery's original budgeted target for the year by 20%. The target agreed with the Department for Culture, Media and Sport for the 2005-08 Funding Agreement, which comprises income from exhibitions, learning and access, venue hire, trading and catering franchise, net of venue hire and trading direct costs, was over-achieved by 42% (see page 29). This was due to strong exhibition admission and trading figures arising in particular out of the *Vanity Fair Portraits* exhibition, and good results from the earlier *Pop Art Portraits* exhibition. The table on page 29 demonstrates that the Gallery exceeded all of the other Funding Agreement targets during the year.

Voluntary income

Support from Individuals

The Patrons' group has continued to flourish and a number of Annual Patrons upgraded to Life Patrons during the year.

Patrons enjoyed an afternoon visit to Peter Blake's London studio, a special tour of Stratfield Saye House with Lady Douro, a Trustee, and a visit to Charleston Farm House and Monk's House in East Sussex; the year closed with candlelit tours of Sir John Soane's Museum.

In April a group of thirty-five Patrons, donors and their guests, and some of our Board of American Friends, celebrated the opening of *Great Britons: Treasures from the National Portrait Gallery, London* at the National Portrait Gallery in Washington, D.C. The programme of events included a dinner hosted by the British Ambassador and Lady Manning, private tours of the National Gallery of Art, and the National Museum of Women in the Arts.

This year, as part of their valued and continued financial contribution to the Gallery, the Patrons supported *Daily Encounters: Photographs from Fleet Street*.

The Gallery now has 100 Associates and has recently launched a new category of Joint Associates for their husbands or wives.

A new annual event was an evening hosted by Jacob Simon at which Associates and their guests could explore the Collection. Guests toured either the Tudors, the Regency or the *Daily Encounters* exhibition.

Following the success of *David Hockney Portraits*, we retained over 60% of the new Members that joined during this exhibition. This high retention rate was due to the success of direct debits, renewal incentives and changes to the Members' Events Programme.

During *Vanity Fair Portraits*, we combined a temporary Members' Desk with dedicated Visitor Services Assistants to recruit visitors to Membership. This focused recruitment approach, and improved website communications, have produced a positive response to becoming Members from visitors to temporary exhibitions.

Grant-giving bodies

Charitable trusts and foundations continue to provide a valuable source of income.

The Leverhulme Fellowship in the History of Portraiture is in its fifth year, with two academics undertaking research at the Gallery. The Paul Mellon Centre for Studies in British Art provided support for the *Later Victorians* catalogue and a conference held as part of the *Between Worlds* exhibition.

Following accreditation by the Arts and Humanities Research Council (AHRC) as an Independent Research Organisation, the Gallery has been awarded its first grant. This was under the Research Networks and Workshops Scheme for the creation of an open forum for debate on the five-year research project 'Making Art in Tudor Britain'. The Gallery will continue to develop this important source of funding over the coming months.

We are delighted that the Vodafone UK Foundation has renewed its support for the Access Programme with a gift over three years. This enables children and young people with a wide range of needs to enjoy tailor-made learning.

Development Board and Board of American Friends

The Development Board, under the Chairmanship of Amelia Fawcett, and the Corporate and Individual Advisory Groups, chaired respectively by Margaret Exley and Frances Jackson, have been very supportive. A number of Board members generously hosted tables at the *Vanity Fair Portraits* fundraising dinner. The Board welcomed two new members, artist Jonathan Yeo and Johnny Hornby.

The Board of American Friends made several grants under the Chairmanship of the President, David Alexander.

Activities for generating funds*Corporate members and Venue hire*

This year, many of the Gallery's Corporate Members and Regency Partners chose to hold private events including BDG Workfutures (WPP Group), Freshfields Bruckhaus Deringer, JPMorgan, Linklaters, McKinsey, and Towers Perrin.

Sponsors BlackBerry, BP, Burberry, Gap, Herbert Smith, Lehman Brothers and Taylor Wessing all hosted events around our special exhibitions.

One-off receptions were held in different galleries with a number of organisations, ranging from the Greater London Authority to architects Stanton Williams and Russo. The British Chamber of Commerce, Business in the Community and the Newspaper Marketing Agency were among those who held dinners. Individuals also hosted receptions and dinners throughout the year, including weekend events in the Portrait Restaurant.

Trading company

The Gallery's subsidiary trading company, which began trading on 1 April 2007, had a successful first year, making profits of £509,000, all which it will gift-aid to the Gallery. The trading company's business comprises retail, venue hire and the catering franchise. An internal audit review provided assurance that all aspects had been considered during the process of incorporation. The review recommended that the company should appoint an independent member to its Board. A specification has been agreed and recruitment will begin early in 2008/9. The appointee will be someone with a strong commercial background, ideally with retail experience, and will be key in assisting the company to identify, evaluate and develop new commercial opportunities.

Retail

Careful preparation ensured that the transfer to the National Portrait Gallery Company Limited went smoothly and there was no disruption to trading as a result.

Income from the shops is strongly influenced by the exhibitions programme and this year was no exception. *Face of Fashion*, *Pop Art Portraits* and *Vanity Fair Portraits* all generated significant income and all fall within the Gallery's top ten most profitable exhibitions. *Vanity Fair* enjoyed one of the highest ever pick-up rates – the number of visitors to an exhibition that also buy the catalogue.

For the first time, an exhibition shop was installed in the Ondaatje Hall during *Pop Art Portraits* and this proved a worthwhile, if not wholly conclusive, experiment. A service was also introduced enabling visitors to order prints of many works in the exhibition in a variety of frames and finishes, for delivery to the buyer's home. This service was extended to the website, and its popularity will ensure that it is repeated.

Among several distinctive ranges of merchandise was a set of 'POP ART' cufflinks, featured in the *Guardian's* 'Best in museum shops' selection in the run-up to Christmas.

Online sales continued to outstrip those in previous years. Investment in online trading, and in strengthening the buying and operations teams, are among the priorities for the coming year.

Picture Library

The Picture Library delivered sales of some £400,000, rendering a surplus, less costs, in excess of £130,000 during difficult conditions in publishing, television and media markets, and during implementation, without interruption to service, of the first instalment of a new two-part computer system.

Progress towards ambitious further development has been achieved, including the specification and commissioning of a new business-to-business website for delivery in 2008 and a review of business terms and staffing, as well as planning towards a relaunch and marketing of the Gallery's services on rights and images. The bespoke prints service, revised and refreshed, was relaunched in May 2008, with an expanded range of premium options for collectors, including the use of new technologies as well as heritage processing for the production of archival and exhibition quality prints from the Gallery's collections.

Demand for these services among the academic and educational community was significantly increased. In addition, staff provided valuable further training and support, on rights issues, to colleagues across the Gallery. Tom Morgan, Head of Rights and Reproductions, was elected Chair of the Museums Copyright Group, extending the Gallery's sector leadership in this area

Catering franchise

Catering income increased by 8%, despite a slightly lower number of visitors to the Gallery in 2007/08 compared to 2006/07.

Investment and Other income

Investment and other income increased by 48%, mainly due to the bank interest generated from The Portrait Fund.

Effectiveness and efficiency

Improving procurement across the Gallery has remained one of our key aims. A major review of contracts was undertaken and departmental action plans, containing findings and recommendations for improvement, were drawn up. Contracts training and day-to-day procurement advice have been provided to give further support to staff. Some contracts have been renegotiated to achieve greater commercial protection, and cash savings and existing templates have been updated.

Electronic tendering has been introduced, making the Gallery legally compliant with the EU Public Procurement Regulations as well as supporting the government's sustainability and efficiency schemes. In addition, to improve our spending power and increase our collaborative working, we have investigated the possibility of sharing the delivery of certain services with other museums and galleries. We are partnering the National Gallery, in the provision of electricity, and the Natural History Museum, which will be providing Health, Safety and Fire advice from April 2008.

Staff

The continued development of a sound infrastructure of skilled staff and up-to-date systems and resources is a critical element towards the achievement of the Gallery's business plan objectives.

Including long-term sickness, absence rates decreased from an average of 10 days in 2006/07 to 8 days in 2007/08. The public sector average for 2007 including all absences was 10.3 days, according to the Chartered Institute of Personnel and Development 2007 annual survey report of Absence Management.

Around half of the Gallery's managers have now undertaken management and leadership training through the Institute of Leadership and Management (ILM) accredited programme. Ensuring that we have adequate support from senior managers for this was important in embedding improved management practice across the Gallery, and the managers have undergone a coaching skills course to enable these improvements.

To recognise the increasing complexities of procurement, a significant number of staff have now attended contracts training sessions, designed to clarify the understanding of how contracts are formed and give guidance on the structure and content of a contract. Other initiatives during the year included a Managers' Guide to Health and Safety, run in collaboration with the Natural History Museum, and participation for the first time in the Learning at Work Week run by the Campaign for Learning. This programme involved staff conducting and participating in a variety of sessions, such as a live telecast on storytelling.

During January 2008 the Gallery undertook its second employee survey, tracking staff views against the previous survey. 71% of the staff participated – not quite as high as last time but still a good response rate. Overall, the results were positive and indicate that progress has been made in a number of areas.

Diversity

The Gallery now has a combined Equality Scheme, setting out the actions that we will take to ensure diversity across all departments. A component of this has been the implementation of diversity training for all staff, to ensure a high degree of awareness of the scheme and the contribution that staff and managers make to it.

Our partnership with local secondary schools to offer work placement opportunities continues and we have extended the number of schools that we work with. These placements provide a useful way of increasing awareness of possible careers within the museums sector. We also participated for the first time with the Museums Association Diversity scheme, which aims to provide more ethnic-minority people who are qualified as potential applicants for mid and senior level positions in museums.

Lastly, our use of open days to see a wider range of job applicants appears to be delivering some improvements to the diversity of staff within our Visitor Services team, where the percentage of black and ethnic-minority staff has increased from 16% to 21%, (although at the end of March 2008 10% of Visitor Services posts remained unfilled).

During 2007/08, the Gallery received valuable support from volunteers as follows:

	Full-time equivalent
Generating voluntary income:	2.6
Activities for generating funds:	0.2
Extending and broadening audiences:	0.6
Developing the Collection:	2.0
Increasing understanding and engagement with the Collection:	6.4
Support:	1.4

Premises and IT

Over the past year the Gallery has made a number of improvements, some of which are clearly visible, such as the painting of the exterior of the library, archive and administration wing on Orange Street. However, many improvements are less visible, but equally important. In December 2007 we upgraded the core IT infrastructure by installing new centralised storage and VMWare servers. In addition to this over sixty desktop personal computers were upgraded. Other technical developments included upgrading the Gallery's intruder alarm system and a project transferring the CCTV system to digital, which has provided increased coverage through additional cameras and higher resolution imagery. Planning for the major project that will extend lift access to the First Floor Landing, the only area of the Gallery without wheelchair access, has continued and the project is due to commence in 2008.

The focus on sustainability and the Gallery's environmental impact has increased throughout the year. Some progress had already been made on energy consumption, but this year the environmental savings have been enhanced through such measures as installing energy-monitoring equipment in some electrical switch rooms, monitoring heating and improving timers, and commencing a major project that will use ambient temperature (when possible) to achieve cooling. Efforts are being made, where possible, to print Gallery marketing and corporate materials on paper from sustainable sources, and the quarterly *Exhibitions, Talks & Events* booklet, the quarterly *Face to Face* and the *Annual Review* are now printed on Forest Stewardship Council (FSC) approved stock. In addition we have been raising staff awareness of how they can make a difference – for example, by turning off computer monitors and printers at the end of every day.

Services to research and readers

The Heinz Archive and Library received 1,522 visitors and answered 1,644 enquiries. Presentations were made to students from the Courtauld Institute, King's College and the Institute of Historical Research. ISAD(G) compliant catalogues were compiled for the following record series: NPG Photographs, Annual Reports and Education Records. Other cataloguing focused on the two largest collections of prints: large-format engravings and an extra-illustrated set of the Rev. James Granger's *A Biographical History of England from Egbert the Great to the Revolution*. In total, 6,423 prints were digitised and 12,161 portraits were recorded for the image files and index in the study room.

Records and Information

A project manager was appointed in August to oversee the procurement and implementation of information management systems. EOS International Ltd was selected to supply library software and DS Calm chosen for archives and records management. Contracts were signed in February and both systems were expected to be operational by May 2008. In preparation for this, options for indexing portraits were reviewed and plans were made for shifting bibliographical and archival data to the new systems. A pilot project for developing electronic records management practice, launched in 2007, was postponed while this work continues. Following an information audit, procedures for providing public access to Gallery Records were improved in line with record-keeping legislation. Progress was also made with the portrait portal initiative: the Gallery explored options for harnessing portrait data from external sources and, in particular, investigated the possibility of collaboration with the Public Catalogue Foundation. Fourteen Freedom of Information (FOI) requests were received and, following appeals against the Gallery's decision to withhold some information, three requests were referred to the Information Commissioner.

Governance

The Gallery seeks to uphold the highest standards of governance through the accountability and transparency of its management processes, decision-making and communications. Actions taken during the year to strengthen and improve governance included an update of the Exhibitions and Display policy and the publication of an Intellectual Property Rights Policy (both are viewable on the Gallery's website). A review of the Trading department was also undertaken, as too was a review of Health and Safety in the Gallery.

FINANCIAL REVIEW

Presentation

The Accounts have been prepared in a form directed by the Secretary of State for Culture, Media and Sport with the consent of the Treasury in accordance with sections 9(4) and 9(5) of the Museums and Galleries Act 1992.

The Accounts are presented in accordance with the reporting requirements of the Statement of Recommended Practice (SORP, revised 2005), *Accounting and Reporting by Charities*.

As required by the SORP, the Statement of Financial Activities shows total incoming resources for the year, including income received for capital expenditure and future projects occurring in 2007/08 and beyond. The Statement of Financial Activities apportions the cost of support services (directorate, personnel, finance, IT, utilities, maintenance, communications and office expenses) and depreciation across the various headings of cost of generating funds and charitable expenditure.

Financial Performance

In spite of the continuing difficulties in the economic and security climate, 2007/08 has been a good year in terms of meeting internal financial targets as well as the performance targets agreed with the Department for Culture, Media and Sport. The success of *Vanity Fair Portraits* and other charging exhibitions together with strong trading and excellent fundraising results have allowed the Gallery to designate further funds in the Investment and Contingency Fund to finance future expenditure, as described below in the Reserves Policy.

Statement of Financial Activities

The Gallery received a 4.5% increase in revenue grant-in-aid funding and £170,000 capital funding from the DCMS in 2007/08. However, it remains essential for the Gallery to increase its self-generated income in order to support its existing resource base while embarking on new initiatives. The Gallery also received an allocation of £160,000 from the Strategic Commissioning Fund (jointly sponsored by the DCMS and the DfES) with a further equivalent amount committed for 2008/09. 2007/08 grant-in-aid per visitor to St Martin's Place was £4.27, less than 2% higher than the figure of £4.19 in 2006/07, maintaining the Gallery as outstandingly effective within the museums and galleries sector in terms of this key performance indicator.

As Grant-in-Aid represents only 42% of total income received in 2007/08, self-generated income remains crucial to sustaining the breadth and quality of the Gallery's activities. Gross self-generated income represented 58% of total income, compared to 56% in 2006/07. Self-generated income increased by 16% compared to 2006/07 comprising healthy increases in the majority of fundraising income, exhibition sponsorship, venue hire, and catering. Income earned by Retail, Publications and Picture Library declined by 13% compared to 2006/07, but this was because the 2006/07 Retail income was boosted significantly by the highly successful *David Hockney Portraits* exhibition.

The rise in the proportion of the Gallery's total income accounted for by self-generated income has continued the trend of recent years and renders the Gallery more dependent on self-generated income than grant-in-aid. The 16% increase in self-generated income, compared to 2006/07, arose because the Gallery received its first tranche of the £5 million donation from the Lerner family. Further tranches from the Lerner gift will be received over the next two years. Self-generated income was also boosted by the commercial success of the exhibitions programme together with a good first year of trading for the trading company, which earned profit before tax of £0.5 million.

Overall resources expended fell by 2% compared to 2006/07, mainly as a result of a reduction in cost in the Gallery's trading activities, where Retail costs were about £300,000 lower than in 2007/08. This too was a reflection of the considerable retail activity generated by the *David Hockney Portraits* exhibition in 2006/07, where retail income – and therefore retail costs – were significantly higher than in previous years. As a proportion of total resources expended, staff costs increased from 50% to 54%. This was as a result of a reduction in total resources expended in 2007/08 compared to 2006/07, and a 3% increase in staff numbers between the years.

Balance Sheet

Unrestricted Funds

The brought forward Unrestricted Funds balance of £10.2 million was increased by £1.5 million during the year. The closing balance was £11.7 million of which £7.7 million represents the capital assets funded from self-generated income (which are therefore not available to spend) and £3.6 million has been designated for the Investment and Contingency Fund (see Reserves Policy below) and for projects deferred to 2008/09. In order to reflect the fact that acquisitions for the collection are inalienable and therefore restricted, the £0.27 million value of internally funded acquisitions has also been designated and transferred to Restricted Funds. The General Fund has been adjusted to £0.35 million in accordance with the Reserves Policy below.

Restricted Funds

The brought forward Restricted Funds balance of £52.2 million was increased by £5.4 million. The closing balance was £57.6 million of which £46.5 million represents the vested assets and the capital assets financed by the Development Appeal Fund and the Heritage Lottery Fund and £7.5 million represents donations for capitalised acquisitions (including the value of donated objects); neither of these amounts is therefore available to spend. The balance of £3.6 million represents The Portrait Fund, together with funds donated and available for the restricted purposes of grant-funded projects to be completed and the acquisition of specified categories of portraits.

Fixed Assets

The principal fixed assets represent the depreciated value of the St Martin's Place and the Orange Street buildings which were re-valued at 31 March 2004. In accordance with a Treasury directive, the Gallery has adopted a policy of using National Statistical Office indices to adjust the depreciated values of all assets in the years when they are not re-valued. The net book value of St Martin's Place and Orange Street, including fit-out, at 31 March 2008 was £43.8 million.

Performance against targets

An analysis of performance against the core targets agreed with the Department for Culture, Media and Sport under the Funding Agreement is set out on page 29.

Payment of Creditors

The Gallery follows the Treasury's guidance on payment of invoices. In 2007/08 the Gallery paid approximately 64% of its invoices within 30 days of the invoice date, compared to 48% in 2006/07. In February a new purchase ordering

system was rolled out across the Gallery in order to strengthen the Gallery's procurement controls and to improve payment performance, following a successful pilot during December and January.

Investment Policy

Investments are held in accordance with the Trustees Act 2000. Surplus cash is held on deposit with National Westminster Bank Plc, which provides daily access while earning longer-term Money Market rates, providing a rate of return together with the liquidity required for the payment of current liabilities and future obligations. The Gallery also has a total of £37,000 in Charinco (managed by Black Rock Investments) and COIF (managed by CCLA), which are both common investment funds (see Note 7).

Trustees will keep the Gallery's investment policy under review; the overall objective will continue to be to maximise total return in the long term, while maintaining a prudent spread of risk. During 2007/08 the Trustees of the Portrait Fund considered the investment strategy for the Fund and agreed that, in anticipation of volatility in the stock markets and a weakening in the world economy, the funds should remain on deposit with National Westminster Bank Plc, together with the Gallery's other cash balances to enable the aggregated reserves to earn a higher interest rate overall.

Reserves Policy

The Trustees perform an annual review of the Gallery's needs for reserves in line with the guidance issued by the Charity Commission. Between 40% and 50% of annual income is received as recurrent Grant-in-Aid from the government. The balance is derived from self-generated income which is mostly volatile and vulnerable to economic downturn. The Gallery has no general endowment and only a modest endowment for the support of the acquisition of major portraits (see below).

General funds need to be sufficient to enable the Gallery to manage its working capital, specifically the cash tied up in stock. The balance of £350,000 in the General Reserve equates in total to three-quarters of the average stock levels in the accounts.

The Trustees have designated an Investment and Contingency Fund to finance expenditure which:

- enables the strategic objectives of the Gallery's five year corporate plan to be achieved, in particular those which increase future income or the efficiency of operations; and/or
- acts as bridging to future increases in recurrent income.

£1.7 million of the £2.8 million balance as at 31 March 2008 has been allocated to specific projects for these purposes in 2008 to 2011. A further £0.8 million has been set aside for contingencies, consisting of £0.3 million held as contingency against unforeseen expenditure and short-term losses of income and £0.25 million held in order to smooth fluctuations on baseline expenditure which needs to be averaged across several years, such as the exhibitions programme. Any balance (up to £0.25 million per annum) allows the Director to take advantage of unexpected opportunities during the year. The fund is replenished with one-off unrestricted income (apart from legacies designated for The Portrait Fund as below) and with any annual surplus in excess of the balance maintained in the General Reserve.

The Deferred Projects Fund represents underspends generated in the previous financial year, which are to be employed in specific projects, usually in the current financial year; the full balance of £0.74 million is expected to be spent in 2008/09.

Trustees have also designated The Portrait Fund for acquisitions and development of the Collection. Whenever the Gallery receives unrestricted legacies of £10,000 or more, Trustees consider their designation for The Portrait Fund (every legacy to the Gallery goes towards developing and caring for the Collection for future generations). Legacies under £10,000 will be spent on acquisitions, at the discretion of the Director.

The level of unrestricted funds is reviewed by Trustees four times a year. The reserves policy is reviewed by Trustees once a year.

Related Parties

The Gallery's sponsor, the Department for Culture, Media and Sport, is regarded as a related party. During the year, the Gallery has had various material transactions with the Department and with other entities for which the Department is regarded as the parent Department. More information on the Gallery's related party transactions is included in Note 22.

Capital Charging

From 2003/04, following the Government's full introduction of "resource budgeting" the Gallery has been required to manage its net expenditure, including its capital charges on assets (costs of capital as described in Note 1), depreciation and other diminutions of value on fixed assets) and other non-cash costs such as provisions within an overall resource allocation from the Department for Culture, Media and Sport.

The Government's 2002 Spending Review covering 2003-2006 was the first on full resource budgeting basis and included provision for these new non-cash costs in the budgets allocated to public sector bodies such as the Gallery. The Government's objectives are to reflect the full economic cost of providing public services, to provide better information for decision taking and also to act as an incentive for the management of assets and investment.

The capital charging regime does not apply to donated assets (including those funded by the National Lottery), non-operational heritage assets and additions to the collection post March 2001 which are capitalised at cost.

As capital charges are affected by the external professional revaluations and annual revaluation by indexation to fixed assets, there is a risk that the actual capital charges will exceed the original estimates (both the actual and projected indexation calculations use indices provided by the Treasury); any overspend on non-cash costs could reduce cash Grant-in-Aid in the following year. However, in recognition of this risk, the Department, in 2003/2004, secured a safeguard for the Museum and Gallery sector from the Treasury, against the impact of March 2004 five yearly professional revaluations of land and buildings; however this safeguard was only in place for 2003 to 2006 and is no longer in place.

The Department had also agreed to cover from the Department's own funds until 2005/06 any increase in capital charges arising from the use of indices in the years between full professional revaluations on inalienable land and buildings, such as the main building of the Gallery. This provision lapsed in 2005/06 and variations on other assets liable to capital charges are not covered.

Accordingly, investment decisions since 1 April 2003 have therefore had to take account of the impact of capital charges and the availability of provision within the resource allocation from the Department. From 2003/04, the Gallery has also needed to manage any fluctuations arising from variations in the value of assets on indexation, apart from those eligible for cover by the Department.

REMUNERATION REPORT

The following sections provide details of the remuneration and pension interests of the Gallery's most senior management, consisting of the Director, Sandy Nairne, and the two Deputy Directors, Pim Baxter – Director of Communications and Development – and Jacob Simon, Chief Curator.

Service Contracts

Appointments of the Gallery's Director, Director of Communications and Chief Curator are made on merit and on the basis of fair and open competition.

The Director's contract of employment is fixed for a period of seven years, effective from November 2002 with a 6 month notice period and its terms are agreed with the Department for Culture, Media and Sport. The Director is eligible to receive ill health retirement benefits or early retirement benefits under Section 3 of the PCSPS but not to compensation under Section 10 of the PCSPS at the expiry of the appointment.

The two Deputy Directors hold appointments, which are open-ended until they reach the normal retiring age of 60, which is standard for all Gallery staff with the exception of the Director and staff employed on fixed term project

work. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

The Trustees are appointed to serve for a period of four years with the possibility of renewal for a further period of four years at the end of that period. Their appointment is unremunerated, although Trustees may be reimbursed for expenses incurred on Gallery business.

Audited Information

Remuneration paid to the Director and Deputy Directors during the year was as follows – figures in the table are audited information, (comparative figures for the previous year's salaries are shown in brackets):

Name	Salary (including bonus) £000	Real increase in pension as at 31/3/08 and related lump sum £000	Total accrued pension at age 60 at 31/3/08 and related lump sum £000	CETV at 31/3/07 £000	CETV at 31/3/08 £000	Real increase in CETV £000
Sandy Nairne <i>Director</i>	105–110 (105–110)	0–2.5	25–30	413	498	23
Pim Baxter <i>Deputy Director</i>	60–65 (60–65)	0–2.5 Plus lump sum of 2.5–5	5–10 Plus lump sum of 25–30	144	188	23
Jacob Simon <i>Deputy Director</i>	60–65 (55–60)	0–2.5 Plus lump sum of 0–2.5	25–30 Plus lump sum of 85–90	671	729	15

The monetary value of benefits in kind covers any benefits provided by the employer and treated by HMRC as a taxable emolument. None of the above mentioned senior staff received any benefits in kind in 2007/08, (none also in 2006/07).

The Trustees neither received nor waived any emoluments during the year (also in 2006/07). Expenses reimbursed or paid on behalf of one Trustee amounted to £113 (£180 in 2006/07) relating to travel and subsistence and a further £228 (nil in 2006/07) on behalf of another Trustee relating to hospitality.

Salary

“Salary” includes gross salary; performance pay or bonuses (Director’s salary only); overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation.

The Senior Staff Remuneration Committee advises the Trustees on the performance and remuneration of the Director. The Committee is chaired by the Chairman of the Trustees and is composed of the members of the Audit and Compliance Committee (see page 27). Once a year the Chairman leads a discussion on the Director’s work, against the objectives agreed at the previous meeting of the Committee, in order to recommend to the Board the awarding of any performance related pay. The Director’s bonus can be up to 15% of his annual salary, subject to performance against the agreed objectives for that period. Up to 5% of the bonus can be consolidated.

The remuneration of the Director, Sandy Nairne, was £97,814 plus a non-consolidated bonus of £11,078. (In 2006/07 the remuneration of the Director, Sandy Nairne, was £94,481 plus a non-consolidated bonus of £11,491).

The remuneration of the Deputy Directors is set out in their contracts and subject to the annual pay review framework for all staff. Their salary does not include any performance related bonuses.

Pensions

Pension benefits are provided through the Civil Service Pension arrangements and the Director and Deputy Directors are members of the Principal Civil Service Pension Scheme. From 30 July 2007, Directors and Gallery staff may be in one of four defined benefit schemes; either a 'final salary' scheme (classic, premium or classic plus); or a 'whole career' scheme (nuvos). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus and nuvos are increased annually in line with changes in the Retail Prices Index (RPI). Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a good quality 'money purchase' stakeholder pension with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium, classic plus and nuvos. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. classic plus is essentially a hybrid with benefits in respect of service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 calculated as in premium. In nuvos a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with RPI. In all cases members may opt to give up (commute) pension for lump sum up to the limits set by the Finance Act 2004.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of three providers. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement). The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus and 65 for members of nuvos. Further details about the Civil Service pension arrangements can be found at the website (www.civilservice-pensions.gov.uk).

Cash Equivalent Transfer Values

The above table shows the Director's and Deputy Directors' cash equivalent transfer value (CETV) accrued at the beginning and the end of the reporting period. A 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.

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The figures include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their purchasing additional pension benefits 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.



Sandy Nairne,
Accounting Officer
10 July 2008



Professor David Canadine,
Chairman of Trustees
10 July 2008

THE BOARD OF TRUSTEES AND PROFESSIONAL ADVISERS

Between 1 April 2007 and 10 July 2008, the date on which the accounts were signed, the Trustees were:

Ms Zeinab Badawi

Sir Nicholas Blake (* from 30 April 2007)

Professor Robert Boucher, CBE, FREng

Professor David Cannadine, FBA, FRSL (Chairman)

The Marchioness of Douro

Ms Amelia Fawcett, CBE (Deputy Chair) # (* to 30 April 2007)

Ms Flora Fraser

Professor Ludmilla Jordanova

Mr David Mach, RA

Sir Christopher Ondaatje, OC, CBE #

Mr David Ross *

Professor Sara Selwood *

Ms Alexandra Shulman, OBE

Sir John Weston, KCMG *

ex officio

President of the Royal Academy of Arts – Sir Nicholas Grimshaw CBE, PRA

Lord President of the Council – The Rt Hon Baroness Amos to 28th June 2007

Lord President of the Council – The Rt Hon the Baroness Ashton of Upholland from 28th June 2007

* Audit and Compliance Committee members. The Chair of the Audit and Compliance Committee during the year was Mr David Ross. Ms Amelia Fawcett, CBE, was replaced by Sir Nicholas Blake, on 30 April 2007. Mr Stephen Souchon is co-opted on to the Audit and Compliance Committee to provide specialist accountancy knowledge (*for a period of two years from June 2007*).

Development Board members. The Chair of the Development Board is Ms Amelia Fawcett, CBE.

EXTERNAL ADVISERS

Bankers:	Main:	National Westminster Bank 2a Charing Cross Road London WC2H 0PD
	Trust Funds:	Royal Bank of Scotland 49 Charing Cross London SW1A 2DX
External Auditors:		Comptroller & Auditor General National Audit Office 151 Buckingham Palace Road London SW1W 9SS
		Baker Tilly UK Audit LLP Chartered Accountants Hanover House 18 Mount Ephraim Road Tunbridge Wells Kent TN1 1ED

Under statute, the Comptroller & Auditor General is the auditor of the Gallery's accounts for the year 2007/08. The audit fee in respect of this work was £22,000 (£21,500 in 2006/07). Baker Tilly UK Audit LLP is the auditor for the National Portrait Gallery Company Limited and the audit fee in respect of their work was £8,800.

So far as the Accounting Officer, and each person who was a Trustee at the date of approving this report, are aware, there is no relevant audit information, being information needed by the auditor in connection with preparing his report, of which the auditor is unaware. Having made enquiries of the Board of Trustees and Gallery's auditor, the Accounting Officer has taken all the steps that he is obliged to take as Accounting Officer in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information. Having made enquiries of the Accounting Officer, fellow Trustees and the Gallery's auditor, each Trustee has taken all the steps that he/she is obliged to take as a Trustee in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

Internal Auditors:

AHL Limited
Chartwell House
292-294 Hale Lane
Edgware
Middlesex HA8 8NP



Sandy Nairne,
Accounting Officer
10 July 2008



Professor David Canadine,
Chairman of Trustees
10 July 2008

PERFORMANCE AGAINST 2007/08 FUNDING AGREEMENT TARGETS

The Gallery's Funding Agreement with the Department for Culture, Media & Sport contains 7 key performance targets. Targets are reviewed annually and revised where appropriate. Summarised performance is given below and further reference within the relevant context is made within the Annual Report.

Core target	Note	2001/02 Actual	2002/03 Actual	2003/04 Actual	2004/05 Actual	2005/06 Actual	2006/07 Actual	2007/08 Target	2007/08 Actual
Total number of visits to the Gallery excluding virtual visits (000s)	1	1,479	1,319	1,426	1,469	1,529	1,665	1,550	1,646
Number of unique users visiting the website (000s)		1,121	1,374	2,578	4,543	7,300	9,888	6,500	14,869
Number of visits to the Gallery by adult UK visitors (aged 16 or over) from NS-SEC groups 5-8 (000s)	2			114	142	75	107	80	82
Number of visits to the Gallery by children aged 15 or under (000s)		52	66	71	93	81	85	100	151
Number of participations by children aged 15 and under in on- and off-site organised educational sessions (000s)	3			33	43	40	42	42.5	45.2
Net income from trading, including corporate hire (£000)	4					£ 1,684	£ 2,461	£ 1,660	£ 2,362
Efficiency savings (£000)	5					£ 390	£ 495	£ 426	£ 1,483

Note 1: Visits to St Martins Place only (excludes visits to national partner sites)

Note 2: Introduced in the 2003 to 2006 Funding Agreement; prior to 2005/06, numbers represent C2DEs

Note 3: Introduced in the 2003 to 2006 Funding Agreement

Note 4: Introduced in the 2005 to 2008 Funding Agreement and includes income from exhibitions, learning and access, venue hire, trading and catering franchise, net of venue hire and trading direct costs

Note 5: Introduced in the 2005 to 2008 Funding Agreement and comprises cashable and non-cashable savings

STATEMENT OF TRUSTEES' AND DIRECTOR'S RESPONSIBILITIES

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

In preparing the National Portrait Gallery's accounts the Board of Trustees is required to:

- observe the Accounts Direction* issued by the Secretary of State, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, and disclose and explain any material departures in the financial statements; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to assume that the 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 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 a Treasury Memorandum and the Treasury Handbook '*Regularity, Propriety and Value for Money*'.



Sandy Nairne,
Accounting Officer
10 July 2008



Professor David Canadine,
Chairman of Trustees
10 July 2008

* a copy of which is available from the National Portrait Gallery, 2 St Martin's Place, London WC2H 0HE

STATEMENT ON INTERNAL CONTROL

1. Scope of responsibility

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

The Gallery has a three-year Funding Agreement with its government sponsor body, the Department for Culture, Media and Sport, which includes targets to assist the Department in meeting its Public Service Agreement targets and identifies the most significant risks to achieving the Gallery's objectives. Progress against Funding Agreement targets is monitored at least twice a year.

2. The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of 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 efficiently, effectively and economically.

3. Capacity to handle risk

As Accounting Officer and Chair of Trustees we have overall joint responsibility for the Gallery's risk management framework. The Planning Team¹, with facilitation from the Head of Finance and Planning and feedback from Internal Audit, co-ordinates the management of risk within the Gallery's departments and ensures that the Gallery's risk register is kept up-to-date; this is supplemented by risk assessments and monitoring by project managers for cross-departmental projects.

4. The risk and control framework

Risk management has been embedded within the organisation through the business planning and project management procedures developed during 2003/04, which ensure that risks to achieving business plan activities are identified and are managed by having risk as a standing item on project team agendas.

The Planning Team identifies new risks and on an ongoing basis notifies the Head of Finance and Planning, who maintains the Gallery's risk register. Quarterly, the Planning Team re-scores the risks on the risk register, based on their potential impact and likelihood of occurrence. The score is biased towards impact, which takes account of factors such as materiality, need for confidentiality and how immediate and/or widespread the effect of the risk transpiring would be. In addition, the Planning Team provides updates of the action taken in the previous quarter to mitigate the risks.

The Audit and Compliance Committee reviews a high-level version of the risk register and actions taken four times per year, enabling the Committee to focus on the most significant risks, in particular strategic and business environment risks. The Chair of the Audit and Compliance Committee provides quarterly updates to the Board of Trustees on the effectiveness of risk management.

The key areas of strategic and business environment risks confronting the Gallery, and outlined in the high-level risk register, comprise:

¹Comprising the Director, the Head of Finance and Planning, the Chief Curator, the Head of Exhibitions and Collections Management, the Head of Learning and Access, the Communications and Development Director, the Head of Trading and the Head of Resources.

- Governance and management effectiveness
- Financial resources
- Demand for NPG Programmes, products and services
- Stakeholder expectations
- Loss of reputation
- Health and safety and fire prevention
- Loss or damage to the Collection
- Breach of laws, regulations and standards
- Physical disaster
- Major systems/project failure

For each area of risk, the risk register records the action undertaken in the quarter to mitigate it, with any necessary further action identified to reduce it to an acceptable level.

During the year the Gallery undertook the following actions to improve its internal controls in order to mitigate risk in these areas:

- Loss or damage to the Collection – security was reviewed and improved following the attack on the Portrait of Dr Johnson, and a plan is in place for the restoration of the damaged painting.
- Major systems/project failure – renewal of key elements of the Gallery’s IT network were undertaken to reduce the risk of a major network failure.
- Governance and management effectiveness – introduction of a new purchase ordering system for the Gallery to improve and strengthen procurement controls, and at the same time the roll-out of the Government Procurement Card to improve efficiency with minor purchases.
- Governance and management effectiveness – external auditors appointed for the Gallery’s trading subsidiary, and a separate risk register raised to cover the company. As well as being reviewed by the company’s Board of Directors, it is reviewed quarterly by the Planning Team and the Audit & Compliance Committee.

5. Review of effectiveness

As Accounting Officer and Chair of Trustees, we have joint 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:

- Planning Team;
- Audit and Compliance Committee;
- Internal Audit;
- Senior 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.

The *Planning Team* reports on the effectiveness of risk management and the Gallery's system of internal controls to the Accounting Officer who reports to the Audit and Compliance Committee four times each year.

The *Chair of the Audit and Compliance Committee* reports to the Board of Trustees:

- annually, for its approval on the effectiveness of risk management and the Gallery's system of internal controls;
- quarterly, to provide updates on progress against action points on the risk register; and
- as required for emerging issues related to risk management.

The *Head of Internal Audit* issues an annual report to the Accounting Officer, which includes his/her opinion of risk management in the Gallery and a statement of assurance on internal control.

Budget Holders provide the Accounting Officer with an annual assurance statement.

We have been advised on the implications of the result of our review of the effectiveness of the system of internal control by the Board of Trustees, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

6. Significant internal control problems

No significant weaknesses were identified in the annual Internal Audit report to the Accounting Officer and the Audit & Compliance Committee.

7. Conclusion

The system of internal control has been in place at the Gallery for the year ended 31 March 2008 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.



Sandy Nairne,
Accounting Officer
10 July 2008



Professor David Canadine,
Chairman of Trustees
10 July 2008

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 Portrait Gallery for the year ended 31 March 2008 under the Museums and Galleries Act 1992. These comprise the Consolidated Statement of Financial Activities, the Consolidated and Gallery Balance Sheets, the Consolidated 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 Board of Trustees, the Director and auditor

The Board of Trustees, and the Director, as Accounting Officer, are responsible for preparing the Trustees' Annual Report, which includes the Remuneration Report, and the financial statements in accordance with the Museums and Galleries Act 1992 and directions made thereunder by the Secretary of State for Culture, Media, and Sport with the consent of the Treasury, and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of the Board 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 directions made thereunder by the Secretary of State for Culture, Media and Sport, with the consent of the Treasury. I report to you whether, in my opinion, the information which comprises: the Introduction; Structure, Governance and Management; Objectives; Activities, Performance and Planned Future Developments; Financial Review; and Board of Trustees and Professional Advisors, included in the Trustees' Annual Report, is consistent with the financial statements. I also report whether in all material respects the incoming and outgoing resources funded by Parliament 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 Portrait 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 Portrait 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 Portrait Gallery's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Trustees' Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the unaudited part of the Remuneration Report; and Performance against 2007/08 Funding Agreement. 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 Board of Trustees and the Director in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the National Portrait 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 Parliament 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, Media and Sport with the consent of the Treasury, of the state of the National Portrait Gallery and the group's affairs as at 31 March 2008 and of its incoming resources and application of resources of the group 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 directions made thereunder by the Secretary of State for Culture, Media and Sport with the consent of the Treasury; and
- the information which comprises the Introduction; Structure, Governance and Management; Objectives; Activities, Performance and Planned Future Developments; Financial Review; and Board of Trustees and Professional Advisors, included in the Trustees' 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 Parliament 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.

T J Burr
Comptroller and Auditor General
16 July 2008

National Audit Office
151 Buckingham Palace Road
Victoria
London SW1W 9SS

CONSOLIDATED STATEMENT OF FINANCIAL ACTIVITIES FOR THE YEAR ENDED 31 MARCH 2008

	Notes	Unrestricted Funds £000	Restricted Funds £000	2008 Total £000	2007 Total £000
INCOMING RESOURCES					
Grant in Aid	2a	6,868	170	7,038	7,031
Incoming resources from generated funds					
Voluntary Income	2b	1,421	2,696	4,117	2,788
Activities for generating funds	2c	2,914	–	2,914	3,227
Investment income	3	367	–	367	221
Incoming resources from charitable activities					
Exhibitions admissions and touring income		1,324	–	1,324	1,504
Exhibition and programme sponsorship income		717	–	717	1,080
Learning and access income		42	–	42	38
Other income		89	2	91	138
Total incoming resources		<u>13,742</u>	<u>2,868</u>	<u>16,610</u>	<u>16,027</u>
RESOURCES EXPENDED					
Costs of generating funds					
Costs of generating voluntary income	5	434	16	450	494
Fundraising trading: cost of goods sold and other costs	5	2,426	21	2,447	2,878
Total costs of generating funds		<u>2,860</u>	<u>37</u>	<u>2,897</u>	<u>3,372</u>
Resources expended on charitable activities					
Extending and broadening audiences	5	2,223	467	2,690	2,917
Developing the Collection	5	3,422	198	3,620	3,678
Increasing understanding and engagement with the Collection	5	3,732	937	4,669	4,141
Governance costs	5	92	14	106	102
Total Resources expended		<u>12,329</u>	<u>1,653</u>	<u>13,982</u>	<u>14,210</u>
Net incoming/(outgoing) resources before notional costs		1,413	1,215	2,628	1,817
Notional costs					
Notional cost of capital	1(l)	(793)	–	(793)	(748)
Net incoming/(outgoing) resources after notional costs		620	1,215	1,835	1,069
Reversal of notional costs		793	–	793	748
Net incoming/(outgoing) resources for the year before transfers		1,413	1,215	2,628	1,817
Transfers between funds	12	(432)	432	–	–
Net incoming resources for the year before other recognised gains and losses		981	1,647	2,628	1,817
Gains on investments	7	(1)	–	(1)	–
Gain on revaluation of fixed assets for charity's own use	12	501	3,701	4,202	2,195
Net movement in funds		1,481	5,348	6,829	4,012
Fund balances brought forward at 1 April (Restated)		10,214	52,208	62,422	58,410
Fund balances carried forward at 31st March		<u>11,695</u>	<u>57,556</u>	<u>69,251</u>	<u>62,422</u>

The fund balances brought forward at 1 April have been restated to reflect a revision of the allocation of the Portrait Fund between Restricted and Unrestricted funds.

All operations of the Gallery continued throughout both periods and no operations were acquired or discontinued in either period. There are no recognised gains or losses other than those shown above.

The notes on pages 40 to 60 form part of these accounts.

CONSOLIDATED BALANCE SHEET AS AT 31 MARCH 2008

	Notes	£000	2008 £000	2007 £000 Restated
Fixed Assets				
Heritage Assets	6		7,471	6,618
Tangible assets	6		54,165	50,935
Investments	7		37	38
			<u>61,673</u>	<u>57,591</u>
Current Assets				
Stock	10	322		396
Debtors and prepayments	9	799		806
Cash at bank and in hand	8	8,628		5,198
			<u>9,749</u>	<u>6,400</u>
Current Liabilities				
Creditors (amounts falling due within one year)	11	2,171		1,569
Net Current Assets			<u>7,578</u>	<u>4,831</u>
Long Term Liabilities				
Creditors (amounts falling due after one year)	11		-	-
Net Assets			<u>69,251</u>	<u>62,422</u>
Represented by:				
Restricted Funds	12		57,556	52,208
Unrestricted Funds				
Designated funds	12		11,345	9,814
General funds	12		350	400
Total Funds			<u>69,251</u>	<u>62,422</u>

The figures for 2006-07 have been restated to reflect a revision of the allocation of the Portrait Fund between Restricted and Unrestricted funds.

The notes on pages 40 to 60 form part of these accounts.



Sandy Nairne,
Accounting Officer
10 July 2008



Professor David Canadine,
Chairman of Trustees
10 July 2008

GALLERY BALANCE SHEET AS AT 31 MARCH 2008

	Notes	£000	2008 £000	2007 £000 Restated*
Fixed Assets				
Heritage Assets	6		7,471	6,618
Tangible assets	6		54,165	50,935
Investments	7		37	38
			61,673	57,591
Current Assets				
Stock	10	190		285
Debtors and prepayments	9	1,367		917
Cash at bank and in hand	8	8,084		5,198
		9,641		6,400
Current Liabilities				
Creditors (amounts falling due within one year)	11	2,063		1,569
Net Current Assets			7,578	4,831
Long Term Liabilities				
Creditors (amounts falling due after one year)	11		-	-
Net Assets			69,251	62,422
Represented by:				
Restricted Funds	12		57,556	52,208
Unrestricted Funds				
Designated funds	12		11,345	9,814
General funds	12		350	400
Total Funds			69,251	62,422

The figures for 2006-07 have been restated to exclude those assets which were transferred to the Company as at 1 April 2007. Stock to the value of £111,403 was transferred to the Company and the loan covering the transfer is disclosed under Debtors and prepayments, being repayable over 5 years. Further analysis is given in Notes 9 to 11.

In addition, the figures for 2006-07 have been restated to reflect a revision of the allocation of the Portrait Fund between Restricted and Unrestricted funds.

The notes on pages 40 to 60 form part of these accounts.



Sandy Nairne,
Accounting Officer
10 July 2008



Professor David Canadine,
Chairman of Trustees
10 July 2008

CONSOLIDATED CASH FLOW STATEMENT AS AT 31 MARCH 2008

		2008	2007
	Note	£000	£000
Net cash inflow from operating activities	18(a)	4,403	3,344
Capital expenditure and financial investment	18(b)	(1,340)	(2,643)
Management of liquid resources	18(b)	-	-
Return on investments and servicing of finance	18(b)	367	221
Increase in cash in the year		<u>3,430</u>	<u>922</u>

The notes on pages 40 to 60 form part of these accounts.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2008

1. ACCOUNTING POLICIES

a) Basis of accounting

The accounts have been prepared under the historic cost convention modified to include the revaluation of land and buildings, and the revaluation of listed investments to market value at the balance sheet date. The accounts comply with the Statement of Recommended Practice 2005, Accounting and Reporting by Charities, applicable accounting standards and the Accounts Direction issued by the Department for Media, Culture and Sport. The accounts include the Grant-in-Aid account and two trust funds administered by the Gallery (the Dame Helen Gardner bequest and the Portrait Fund) and exclude the American Friends of the National Portrait Gallery (London) Foundation Inc, a US grant-giving organisation with 501 (c) (3) tax status, over which the Gallery has no direct control. The Gallery is recognised as an exempt charity under the provisions of the Charities Act 1993.

The Consolidated accounts are for the National Portrait Gallery and its subsidiary National Portrait Gallery Company Limited (the Company); the Company began trading on 1 April 2007 and its results are consolidated for the first time.

b) Incoming resources

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

Income received in advance is deferred where it would be repayable if conditions are not met in the future.

Grant-in-Aid from the Department for Culture, Media and Sport allocated to general purposes is taken to the Statement of Financial Activities in the year it is received.

Gifts in kind are treated as donations in the period the gift is received at the gross value to the Gallery at the time of the gift.

Legacies are recognised as income when there is entitlement, certainty of receipt and measurability of the legacy.

All membership income is recognised in the year in which it is receivable and income from exhibition sponsorship is recognised in full in the year in which the exhibition commences.

c) Expenditure

Expenditure is classified under the principal categories of charitable expenditure and the costs of generating funds rather than the type of expense, in order to provide more useful information to users of these accounts.

Charitable expenditure and costs of generating funds comprise direct expenditure including direct staff costs attributable to the Gallery. Where costs cannot be directly attributed, they have been allocated to activities on a basis consistent with the use of the resources (these general overheads include the costs of directorate and office services, personnel, finance and planning, IT and communications, facilities management and depreciation). Fundraising costs are those incurred in seeking voluntary contributions for the Gallery.

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

d) Fund accounting

Unrestricted funds:

Designated funds comprise funds which have been set aside at the discretion of the Trustees for specific purposes.

Restricted funds:

Restricted funds are those subject to specific restrictions imposed by donors, by the purpose of the appeal or conditions of the Trust.

1. ACCOUNTING POLICIES (CONTINUED)

Restricted funds include the Portrait Fund. The Portrait Fund is governed by a separate Declaration of Trust, through which an initial balance for the Fund of £1,087,000 was transferred to restricted funds. Subsequent income provided to the Fund can only be recognised as restricted income if it is received from donors specifying that the donation is for the purposes of the Portrait Fund.

e) *Heritage assets*

Since 1 April 2001 all purchased and donated additions to the Primary Collection and all purchased additions to the Photographs Collection have been capitalised at the cost or value of the acquisition, where such a cost or valuation is reasonably obtainable and reliable. From 1 April 2005 all purchased and donated additions to the Reference Collection have been capitalised. Such items are not depreciated or re-valued as a matter of routine. The valuations of donated acquisitions have been made by the Gallery's staff and therefore represent an indicative estimate.

f) *Tangible fixed assets*

The Gallery capitalises the purchase of assets which cost more than £5,000 and IT hardware and software which have lives in excess of one year.

Land and buildings are professionally valued every five years; the last such valuation was undertaken as at 31 March 2004. In the years between professional valuations of land and buildings, and every year for other fixed assets, National Statistical indices are used to adjust the net book value of the assets.

Depreciation is provided on all tangible fixed assets, except freehold land, at rates calculated to write off the costs less estimated residual value of each asset on a straight line basis. For existing assets, depreciation is calculated after indexation; for assets under construction, depreciation is not charged until the year the asset has been completed. Depreciation is charged on additions and not on disposals.

Indicative asset lives are as follows:

Freehold buildings	50 years
Leasehold land and buildings	length of lease
Fit-out of buildings	25-30 years
Plant and machinery	20-25 years
Furniture and equipment	4 years

Where the recoverable amount of a fixed asset is found to be below its net book value, the asset is written down to the recoverable figure and the loss on impairment is recognised in the Statement of Financial Activities.

g) *Investments*

Investments are stated at market value. It is the Gallery's policy to keep valuations up to date such that when investments are sold there is no gain or loss arising. As a result, the Statement of Financial Activities only includes those unrealised gains or losses arising from the revaluation of the portfolio throughout the year. Disclosure is made in Note 7 of the difference between historical cost and the sale proceeds of the investments sold during the year.

h) *Stock*

Stock is valued at the lower of cost and net realisable value and mainly comprises goods for resale. It also includes any work-in-progress which arises out of material expenditure on a publication that is not due to be completed until after the end of the financial year in which the expenditure occurs.

Books, catalogues, posters and postcards produced by the Gallery are sold to the Company on consignment. The consignment stock is an asset of the Gallery.

i) *Leases*

The Gallery has no finance leases. Costs in relation to operating leases are charged to the Statement of Financial Activities over the life of the lease.

j) *Foreign currencies*

Assets and liabilities denominated in foreign currencies are recorded 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 Statement of Financial Activities.

1. ACCOUNTING POLICIES (CONTINUED)*k) Pension costs*

Past and present employees are covered by the provisions of the Principal Civil Service Pension Schemes (PCSPS) which are described at Note 5. The defined benefit elements of the schemes are unfunded and are non-contributory except in respect of dependents' benefits. The Gallery recognises the expected costs of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution elements of the schemes, the Gallery recognises the contributions payable for the year.

l) Notional cost of capital

In accordance with Treasury guidance, notional costs of capital (calculated as 3.5% of the average non-donated capital employed, excluding heritage assets) are charged in the Statement of Financial Activities in arriving at a net incoming/(outgoing) resources figure. These are reversed so that no provision is included in the balance sheet.

m) Governance costs

Internal and external audit fees, costs of Trustees meetings, planning costs and an allocation of the Head of Finance and Planning's salary are categorised as Governance costs.

2a. GRANT IN AID

	Unrestricted Funds £000	Restricted Funds £000	2008 Total £000	2007 Total £000
Running costs	6,868	–	6,868	6,540
Capital costs	–	170	170	437
			7,038	6,977
Project costs	–	–	–	54
			7,038	7,031
Comprising: Request for resource 1			7,038	7,031

£7,038,000 of Grant-in-Aid was received during the year (£6,977,000 in 2006/07).

This money is available for running costs, capital improvements and collection purchases; of this, £305,000 was designated by the Gallery towards Primary Collection acquisitions (Collections Purchase Fund, Note 13).

The capital grant of £170,000 has been disclosed as restricted income in the Statement of Financial Activities.

2b. VOLUNTARY INCOME

	Unrestricted Funds £000	Restricted Funds £000	2008 Total £000	2007 Total £000
Fundraising dinners	75	–	75	55
Individual giving	382	–	382	257
Grants and donations	903	420	1,323	741
Donated acquisitions	–	143	143	71
Donations for acquisitions	–	2,105	2,105	677
Lottery income	–	28	28	109
Income from NHMF	–	–	–	750
Legacies	32	–	32	82
Other fundraising income	29	–	29	46
	1,421	2,696	4,117	2,788

2b. VOLUNTARY INCOME (CONTINUED)

Grants and donations' and 'Donations for acquisitions' include donations totalling £1.68 million representing the first tranche of the Lerner donation of £5 million, which has been pledged to the Gallery by the Lerner family over three years. The tranche is divided equally between restricted funds (£840,000 in Donations for acquisitions) and unrestricted funds (£840,000 in Grants and donations). The second and third tranches should be received in January 2009 and January 2010 respectively, but the donations have been accounted for on a received basis to reflect the arrangements governing the pledge agreed with the Lerner family.

2c. ACTIVITIES FOR GENERATING FUNDS

	Unrestricted Funds £000	Restricted Funds £000	2008 Total £000	2007 Total £000
Corporate members	130	–	130	149
Publications	358	–	358	358
Picture Library	378	–	378	433
Trading income				
Gallery hire	321	–	321	309
Retail	1,437	–	1,437	1715
Catering franchise	290	–	290	263
	<u>2,914</u>	<u>–</u>	<u>2,914</u>	<u>3,227</u>

3. INVESTMENT INCOME

	2008 £000	2007 £000
Bank interest	365	219
Investment dividends	2	2
	<u>367</u>	<u>221</u>

4. NET INCOMING/(OUTGOING) RESOURCES BEFORE TRANSFERS

is stated after charging:

	2008 £000	2007 £000
a) External auditors' remuneration	31	22
b) Internal auditors' remuneration	16	16
c) Operating lease rentals on land and buildings	64	60
d) Operating lease rental on fixtures & equipment	13	24
e) Cost of capital	793	748
f) Depreciation	1,554	1,377

The audit fee relates solely to audit services provided by the National Audit Office and Baker Tilly.

The incoming resources figure (Exhibition and programme sponsorship income) includes £40,600 of barter transactions (£212,731 in 2006/07). The one transaction totalling £40,600 relates to the sponsorship of *Daily Encounters* exhibition by Getty Images International Ltd. This is included under expenditure relating to Extending and Broadening Audiences.

5. TOTAL RESOURCES EXPENDED

	Direct costs £000	Allocated support costs £000	2008 Total £000	2007 Total £000
Costs of generating funds				
Costs of generating voluntary income	322	128	450	494
Fundraising trading: cost of goods sold and other costs				
Charitable trading	1,067	214	1,281	2,878
Non-charitable trading	881	285	1,166	-
Total costs of fundraising trading	1,948	499	2,447	2,878
Extending and broadening audiences				
Publicity and information	974	79	1,053	1,293
National programme	198	53	251	313
Learning and access	802	584	1,386	1,311
	1,974	716	2,690	2,917
Developing the Collection				
Collection management	2,581	1,039	3,620	3,678
Increasing understanding and engagement with the Collection				
Research and documentation	965	629	1,594	1,470
Exhibitions and display	1,507	1,568	3,075	2,671
	2,472	2,197	4,669	4,141
Governance costs	71	35	106	102
	9,368	4,614	13,982	14,210

**5. TOTAL RESOURCES EXPENDED (CONTINUED)
ALLOCATION OF SUPPORT COSTS**

	Directorate & Office Services	Personnel	Finance & Planning	IT & Communi- cations	Facilities Manage- ment	Depreciation	Support Salary Costs	Total	2007
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Costs of generating voluntary income	13	7	1	20	12	16	59	128136	
Charitable trading	19	11	7	31	27	29	90	214	638
Non-charitable trading	5	15	9	18	96	-	142	285	-
Costs of generating funds	37	33	17	69	135	45	291	627	774
Publicity and information	6	3	10	9	16	9	26	79	60
National programme	6	3	2	9	4	3	26	53	58
Learning and access	19	11	5	31	183	244	91	584	575
Extending and broadening audiences	31	17	17	49	203	256	143	716	693
Collection management	8	64	8	11	183	241	524	1,039	1,043
Developing the Collection	8	64	8	11	183	241	524	1,039	1,043
Research and documentation	33	21	1	57	148	200	169	629	571
Exhibitions and display	21	13	11	35	590	794	104	1,568	1,399
Increasing understanding and engagement with the Collection	54	34	12	92	738	994	273	2,197	1,970
Governance costs	1	-	1	-	14	18	1	35	32
Total	131	148	55	221	1,273	1,554	1,232	4,614	4,512

5. TOTAL RESOURCES EXPENDED (CONTINUED)**BASIS OF ALLOCATION OF SUPPORT COSTS**

Support costs have been allocated across activities as follows:

Directorate: equally across departments

Personnel, salary costs: per capita

Office Services, IT, Telephones: per capita excluding Visitor Services staff

Finance and Planning, Consultancy fees: per direct and staff costs

Rent and Rates, Energy and Water, Maintenance and Housekeeping, Premises works, Depreciation: per square meterage

GOVERNANCE COSTS

	2008	2007
	£000	£000
Breakdown of direct costs		
Trustees' meetings and expenses	3	2
Internal Audit	16	16
External Audit	22	22
Finance and Planning costs	30	30
	<u>71</u>	<u>70</u>

External audit fees stated are for the Gallery only. The audit fees for the Company are included under Non-charitable trading costs.

a) Staff costs

	2008	2007
	£000	£000
Staff costs during the year amounted to:		
Wages and salaries	6,154	5,751
National Insurance	421	405
Pension	953	888
	<u>7,528</u>	<u>7,044</u>
Of which salaries capitalised for digitising the Collection:	129	78

The Company does not employ any staff directly and uses staff seconded from the Gallery. The costs of the staff were recharged to the Company. In 2007-08, the value of these staff costs was £425,000 which was equivalent to 15 full time staff.

Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 1 October 2002, civil servants may be in one of three statutory based 'final salary' defined benefit schemes (classic, premium, and classic plus). The schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, and classic plus are increased annually in line with changes in the Retail Prices Index. New entrants after 1 October 2002 may choose between membership of premium or joining a good quality 'money purchase' stakeholder arrangement with a significant employer contribution (partnership pension account).

5. TOTAL RESOURCES EXPENDED (CONTINUED)

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium and classic plus. Benefits in classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum). Classic plus is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly in the same way as in classic.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3.0% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a selection of approved products. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

Further details about the Civil Service pension arrangements can be found at the website <http://www.civilservice-pensions.gov.uk/>.

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but the National Portrait Gallery is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the scheme as at 31 March 2007. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk). For 2007/08, employers' contributions of £938,000 were payable to the PCSPS (2006/07 £881,000) at one of four rates in the range 17.1% to 25.5% of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. From 2008-09, the salary bands will be revised but the rates will remain the same. (The rates will be changing with effect from April 2009). The contribution rates are set to meet the cost of the benefits accruing during 2007-08 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 £15,234 (£7,521 in 2006/07) 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% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £1,379 (£811 in 2006/07), 0.8% 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 £1,679. There were no contributions prepaid at that date.

All staff joining the Gallery as from July 2007 who are contracted for one year or more automatically join the NUVOS pension scheme whereas if their contract is for less than one year they have the option to join it. The Employee/Employer contributions are the same for NUVOS as for Premium and Classic Plus schemes.

Numbers of Employees

The number of employees, comprising the Director and 3 other members of the Senior Management Team (2 in 2006/07) whose emoluments as defined for taxation purposes amounted to over £60,000 in the year are as follows:

	2008	2007
£60,001–£70,000	3	2
£100,001–£110,000	1	1

These employees are accruing benefits under defined benefit schemes and received no benefits-in-kind.

5. TOTAL RESOURCES EXPENDED (CONTINUED)

The average number of full time equivalent (FTE) employees analysed by function during the year was as follows:

	Permanent staff	Temporary staff	2008 Number	2007 Number
Costs of generating voluntary income	9	–	9	10
Charitable trading	14	–	14	31
Non-charitable trading	15	–	15	–
Extending and broadening audiences				
Publicity and information	4	–	4	3
National programme	4	–	4	4
Learning and access	12	2	14	15
Developing the Collection				
Collection management	64	17	81	82
Increasing understanding and engagement with the Collection				
Research and documentation	26	–	26	24
Exhibitions and display	15	1	16	14
Governance	–	–	–	–
Support	33	2	35	29
	196	22	218	212

Of whom staff digitising the Collection capitalised:

	5	–	5	2
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As at 31 March 2008, 52 staff had season ticket and training loans outstanding worth a total of £48,350 included in Other Debtors.

6. TANGIBLE FIXED ASSETS

	Land and buildings £000	Plant and machinery £000	Furniture & equipment £000	Assets under construction £000	Total tangible assets £000	Heritage assets £000	Total £000
Valuation/cost at 1 April 2007	43,002	10,955	2,199	–	56,156	6,618	62,774
Additions	–	130	352	100	582	853	1,435
Disposals	–	–	(64)	–	(64)	–	(64)
Indexation adjustment	3,936	527	47	–	4,510	–	4,510
Valuation/cost at 31 March 2008	46,938	11,612	2,534	100	61,184	7,471	68,655
Depreciation at 1 April 2007	2,093	1,270	1,859	–	5,222	–	5,222
Disposals	–	–	(64)	–	(64)	–	(64)
Depreciation	794	464	296	–	1,554	–	1,554
Indexation adjustment	213	60	34	–	307	–	307
Depreciation at 31 March 2008	3,100	1,794	2,125	–	7,019	–	7,019
Net book value at 31 March 2008	43,838	9,818	409	100	54,165	7,471	61,636
Net book value at 31 March 2007	40,909	9,685	340	–	50,934	6,618	57,552

Tangible fixed assets relate to the Group and Gallery and the Company has no fixed assets.

6. TANGIBLE FIXED ASSETS (CONTINUED)

The net book value at 31 March 2008 represents fixed assets for:

	Land and buildings £000	Plant and machinery £000	Furniture & equipment £000	Assets under construction £000	Heritage assets £000	Total £000
Charitable activities	39,689	8,889	370	90	7,471	56,509
Other activities	4,149	929	39	10	-	5,127
Total	43,838	9,818	409	100	7,471	61,636

All the Gallery's land and buildings were revalued in accordance with the RICS *Appraisal and Valuation Manual* by the firm of chartered surveyors, ATS Weatheralls, at 31 March 2004, at which time their values were increased overall to £44.2 million. In accordance with HM Treasury guidance, all the assets, except for Assets under Construction and Heritage Assets, have been revalued during 2007/08 using indices published by the Valuation Office and the Office of National Statistics.

In accordance with Financial Reporting Standard 15, *Tangible Fixed Assets*, where a fixed asset comprises two or more major components with substantially different economic lives, each component should be accounted for separately for depreciation purposes and depreciated over its useful economic life. The buildings have three separable material components, which have different remaining asset lives:

structural – 50 years, fit-out – 25-30 years and plant and machinery – 20-25 years. Structural and fit-out costs are disclosed under the land and buildings category.

St Martin's Place: The main Gallery at St. Martin's Place was transferred from ('vested by') the Secretary of State for the Environment and the Crown to the Trustees of the Gallery on 12 January 1994, although title was not registered to the Trustees until 7 June 1994. The main Gallery was brought into the books in 1994 at a net book value of £43.7million and was revalued at 31 March 2004 on a depreciated replacement cost of £37.1million.

Orange Street and Charing Cross Road: The land and buildings at 39-45 Orange Street and 1 Charing Cross Road were purchased by the Trustees in 1988/89 for £1.5 million. This conveyance contains a covenant which states: "that the property shall not be used for any purpose other than for the purposes of The National Portrait Gallery as a non-profit making public art gallery and offices, library and storage and shop for the sale of books, souvenirs and pictures and restaurant and catering for visitors to the public and/or other similar. In each case strictly ancillary to the use of the property or the premises now known as The National Portrait Gallery as a public art gallery." They were reconstructed as part of the Gallery Development Plan to provide new accommodation for the archives and gallery administration. The buildings were occupied from October 1993. These properties were revalued at 31 March 2004 on an existing use basis at £7.1million, with an allowance to reflect the restrictions described.

Merton store: Since the land and buildings used for storage at Merton are held on a 5 year operating lease, expiring May 2009, these assets have not been capitalised; the Gallery's plant and machinery at this property were valued at 31 March 2004 at £0.47million at existing use.

The net book value of land and buildings relates to:

Freehold	£000
Long term lease (greater than 50 years)	42,301
Short term lease (less than 50 years)	1,537
	-
	<u>43,838</u>

7. INVESTMENTS

Fixed asset investments

	Black Rock (Charinco) £000	CCLA (COIF) £000	2008 £000	2007 £000
Market value at 1 April 2007	18	20	38	38
Net gain/(loss) on revaluation	(1)	–	(1)	–
Market value at 31 March 2008	17	20	37	38
Historical cost at 31 March 2008	13	4	17	17

All investments relate to the Gallery only. All funds are invested in common investment funds and are analysed as follows:

	2008 £000	2007 £000
Investment assets in the UK	37	38
	37	38

8. THE ROLE OF FINANCIAL INSTRUMENTS

FRS13 *Derivatives and other financial instruments* requires disclosure of the role which financial instruments have had during the period, in creating or changing the risks the Gallery faces in undertaking its activities. As permitted by FRS13, debtors and creditors which mature or become payable within twelve months of the balance sheet date have been omitted from this note.

Liquidity risk

Approximately 50% of the Gallery's income (excluding income for buildings and net of trading and fundraising costs) is provided as Grant-in-Aid from the Department for Culture, Media and Sport. The remaining proportion is therefore generated via self-generated income, which is volatile. The risk is managed by the reserves policy for general funds which ensures that an amount equivalent in total to three-quarters of the Gallery's average stock levels is held in general funds.

Interest rate risk

The Gallery draws down its annual Grant-in-Aid allocation according to its monthly cash flow requirements; 99.5% of the Gallery's financial assets represents cash held for these short term requirements and therefore earns interest at a floating rate. 0% of the Gallery's financial assets carry fixed rates of interest. About 0.5% of the Gallery's financial assets are held in equities listed on a recognised stock exchange. However, as only a small proportion of income (2007/08–£425,000) is generated from interest earned, the Gallery is not exposed to significant interest rate risk.

Interest rate profile

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

	Floating rate £000	Fixed rate £000	Non-interest bearing £000	Total £000	Weighted average interest rate %	Weighted average period for which rate is fixed
At 31 March 2008						
Sterling Floating	8,606	–	–	8,606	5.77	1 month
Fixed	–	–	–	–	–	–
US\$ Currency	4	–	–	4	0.05	"
Euro Currency	–	–	–	–	–	"
Other	–	–	55	55	–	–
	8,610	–	55	8,665		

8. THE ROLE OF FINANCIAL INSTRUMENTS (CONTINUED)

	Floating rate	Fixed rate	Non-interest bearing	Total	Weighted average interest rate	Weighted average period for which rate is fixed
At 31 March 2007	£000	£000	£000	£000	%	
Sterling Floating	5,164	–	–	5,164	4.24	1 month
Fixed	–	–	–	–		
US\$ Currency	3	–	–	3	1.48	"
Euro Currency	7	–	–	7	–	"
Other	–	–	62	62		
	5,174	–	62	5,236		

The book value equals the fair value for all assets held.

Reconciled to the Balance Sheet

	2008	2007
	£000	£000
Fixed Asset Investments	37	38
Current Asset Investments	–	–
Cash at Bank	8,628	5,198
Total	8,665	5,236

Foreign currency risk

As the Gallery's policy is to convert foreign currency into sterling on receipt, the Gallery's exposure to foreign currency risk is not significant.

9. DEBTORS AND PREPAYMENTS

	GROUP		GALLERY	
	2008	2007	2008	2007
	£000	£000	£000	£000
a) Debtors falling due within one year				
Trade debtors	357	384	260	384
Less provision for bad debts	(6)	(55)	(6)	(55)
	351	329	254	329
Other debtors	192	70	107	70
Prepayments	34	47	33	47
Accrued income	222	360	222	360
VAT recoverable	–	–	–	–
Amounts due from the Company	–	–	685	26
	799	806	1,301	832
b) Debtors falling due after one year				
Amounts due from the Company	–	–	66	85
	–	–	66	85

Of the amount due from the Company, £92,000 relates to a loan given by the Gallery on 1st April 2008. At that date, the loan totalled £111,000, repayable over 5 years. The rate payable is 1% above the Bank of England base rate. A further amount of £509,319 relates to the distribution under Gift Aid of profits from the Company, and the remaining balance represents the intragroup balance as at 31st March 2008.

There were no material balances with Whole of Government Accounts bodies at 31st March 2008.

10. STOCK

	GROUP		GALLERY	
	2008	2007	2008	2007
	£000	£000	£000	£000
Goods for resale	312	386	180	275
Work in progress	10	10	10	10
	322	396	190	285

11. CREDITORS AND ACCRUALS

a) Creditors falling due within one year

	GROUP		GALLERY	
	2008	2007	2008	2007
	£000	£000	£000	£000
Trade creditors	1,161	70	1,074	70
Other creditors	101	135	101	135
Taxation and social security	155	150	155	150
Accrued expenses	275	964	265	964
Deferred income	376	239	365	239
VAT payable	103	11	103	11
	2,171	1,569	2,063	1,569
of which creditors for capital expenditure:	16	64	16	64

b) Creditors falling due after one year

	GROUP		GALLERY	
	2008	2007	2008	2007
	£000	£000	£000	£000
Deferred income	-	-	-	-
	-	-	-	-

There were no material balances with Whole of Government Accounts bodies at 31st March 2008.

c) Movement on deferred income

	Sponsorship	Catering Franchise	Venue Hire	Registration Fees	Total
	£000	£000	£000	£000	£000
Balance as at 1 April	205	-	-	34	239
Amounts released from previous years	(205)	-	-	(34)	(239)
Incoming resources deferred in the current year	325	8	3	40	376
Balance as at 31 March	325	8	3	40	376

Catering Franchise and Venue Hire deferred income relates to the Company.

12. STATEMENT OF FUNDS

	Note	Balance at 1 April 2007 £000 Restated	Income £000	Expenses £000	Net gains/ losses £000	Transfers £000	Balance at 31 March 2008 £000
Unrestricted funds							
Designated funds:							
Collections Purchase Fund	13	–	–	–	–	46	46
Collections Designated Fund	13	–	272	–	–	(272)	–
Capital Projects Reserve Fund*	13	7,121	412	(366)	501	–	7,668
Investment and Contingency Fund	13	2,220	–	–	–	610	2,830
The Portrait Fund	13	79	–	–	–	(17)	62
Deferred Projects Fund	13	394	–	(379)	–	724	739
Total designated funds		9,814	684	(745)	501	1,091	11,345
General Funds (Working Capital)		400	13,058	(11,584)	(1)	(1,523)	350
Total unrestricted funds		10,214	13,742	(12,329)	500	(432)	11,695
Restricted funds							
Development Projects Fund	14	21,440	170	(809)	1,719	–	22,520
Capital Reserve Fund (Non-donated Assets)	14	11,335	–	(121)	853	–	12,067
Capital Reserve Fund (Donated Assets)	14	11,039	–	(258)	1,129	–	11,910
Capitalised Acquisitions Fund	14	6,618	310	–	–	544	7,472
Total Capital Reserve Funds*		50,432	480	(1,188)	3,701	544	53,969
The Portrait Fund	14	1,135	1,854	–	–	110	3,099
Grants and Donations Fund	14	633	504	(437)	–	(215)	485
HLF/NHMF	14	–	28	(28)	–	–	–
Dame Helen Gardner Bequest	14	8	2	–	–	(7)	3
		1,776	2,388	(465)	–	(112)	3,587
Total restricted funds		52,208	2,868	(1,653)	3,701	432	57,556
Total Funds		62,422	16,610	(13,982)	4,201	–	69,251

* Capital Reserve Funds represent the net book value of tangible assets, including Collection acquisitions, purchased with unrestricted or restricted funds as well as the value of the main gallery vested with Trustees; these funds, totalling £61.6 million, are not available to spend.

The figures for 2006-07 have been restated to reflect a revision of the allocation of the Portrait Fund between Restricted and Unrestricted funds, in accordance with Note 1(d).

13. DESIGNATED FUNDS

	£000	2008 £000	2007 £000
COLLECTIONS PURCHASE FUND			
Purchases during 2007/08 for the enhancement of the Primary Collection which were funded by the Grant-in-Aid allocation amounted to £259,000 (£378,000 in 2006/07). Movements on the reserve were as follows:			
Balance at 1 April		-	44
Add: Grant-in-Aid allocation	305		334
Less: Acquisitions for Primary Collection	(259)		(378)
Transfers from General Funds		46	-
Balance as at 31 March		46	-

COLLECTIONS DESIGNATED FUND

Balance as at 1 April		-	-
Purchases for the Primary and Photographs Collections during the year		272	352
Transfer to Capitalised Acquisitions Fund		(272)	(352)
Balance as at 31 March		-	-

This fund represents designation of Grant-in-Aid expended on acquisitions (Heritage Assets), transferred to the restricted Capitalised Acquisitions Fund.

CAPITAL PROJECTS RESERVE FUND

Balance as at 1 April		7,121	6,907
Income during the year designated by the Trustees for Tangible Assets additions		412	159
		7,533	7,066
Less: Depreciation for year		(366)	(271)
Add: Indexation adjustments/revaluation		501	326
Balance as at 31 March		7,668	7,121

This fund represents the net book value of all Tangible Assets which have not been funded from restricted income.

INVESTMENT AND CONTINGENCY FUND

Balance as at 1 April		2,220	1,674
Transfers from: General Funds surplus		610	546
Balance as at 31 March		2,830	2,220

This fund represents a designation of surpluses to be invested in projects in accordance with the reserves policy.

THE PORTRAIT FUND

			Restated
Balance as at 1 April		79	-
Income during the year		-	-
Transfer to Capitalised Acquisition Fund		(50)	-
Transfer from General Funds (Unrestricted legacies and interest earned)		33	79
Balance as at 31 March		62	79

This fund represented income designated for the development of the Collection (acquisitions and related costs such as conservation and displays, including unrestricted legacies and interest earned). The prior year figures have been restated to include £79,000 of unrestricted legacies received.

13. DESIGNATED FUNDS (CONTINUED)

	£000	2008 £000	2007 £000
DEFERRED PROJECTS FUND			
Balance as at 1 April		394	387
Expenditure during the year		(379)	(347)
Transfers from General Funds		724	354
Balance as at 31 March		<u>739</u>	<u>394</u>

This fund represents underspends generated in 2007/08 which are to be employed in projects during 2008/09.

14. RESTRICTED FUNDS

	£000	2008 £000	2007 £000
DEVELOPMENT PROJECTS FUND			
Balance as at 1 April		21,440	20,913
Add: Income for year (Tangible Assets additions)		170	437
Less: Depreciation for year		(809)	(765)
Add: Indexation adjustments/revaluation		1,719	765
Transfer from Grants and Donations Fund		-	90
Balance as at 31 March		<u>22,520</u>	<u>21,440</u>

This fund represents the net book value of Tangible Assets which have been funded from restricted income.

CAPITAL RESERVE FUND (NON-DONATED ASSETS)

Balance as at 1 April		11,335	10,593
Less: Depreciation for year		(121)	(106)
Add: Indexation adjustments/revaluation		853	848
Balance as at 31 March		<u>12,067</u>	<u>11,335</u>

This fund represents the net book value of vested Tangible Assets (Note 6) funded from self-generated income.

CAPITAL RESERVE FUND (DONATED ASSETS)

Balance as at 1 April		11,039	11,017
Less: Depreciation for year		(258)	(234)
Add: Indexation adjustments/revaluation		1,129	256
Balance as at 31 March		<u>11,910</u>	<u>11,039</u>

This fund represents the net book value of vested Tangible Assets (Note 6) funded by donations.

CAPITALISED ACQUISITIONS FUND

Balance as at 1 April		6,618	4,627
Acquisitions funded from restricted donations received during the year		310	615
Transfers from:			
Collections Designated Fund	272		352
Collections Purchase Fund	-		44
Grants and Donations	215		180
HLF / NHMF	-		750
The Portrait Fund	50		50
Dame Helen Gardner Bequest	7		-
		<u>544</u>	
Balance as at 31 March		<u>7,472</u>	<u>6,618</u>

This fund represents the value of Heritage Assets funded by restricted donations and Grant-in-Aid allocated to capitalised acquisitions for Collections.

14. RESTRICTED FUNDS (CONTINUED)

	2008	2007
	£000	£000
THE PORTRAIT FUND		Restated
Balance as at 1 April	1,135	1,087
Add: Donations received	1,854	50
Transfer to Capitalised Acquisition Fund	-	(50)
Transfer from General Funds (Interest earned on Restricted Portrait Fund balances)	110	48
Balance as at 31 March	<u>3,099</u>	<u>1,135</u>

This fund represents restricted funds received specifically for the Portrait Fund for the development of the Collection (acquisitions and related costs such as conservation and displays). The prior year figures have been restated, removing £79,000 of unrestricted legacies received.

GRANTS AND DONATIONS FUND

	2008	2007
	£000	£000
Balance as at 1 April	633	556
Income during the year	504	815
Expenditure during the year	(437)	(468)
Transfers to: Capitalised Acquisitions Fund	(215)	(180)
Development Project Fund	-	(90)
Balance as at 31 March	<u>485</u>	<u>633</u>

This fund represents grants and donations given for a specified purpose.

HERITAGE LOTTERY FUND/NATIONAL HERITAGE MEMORIAL FUND

Balance at 1 April	-	-
Income during the year	28	859
Expenditure during the year	(28)	(109)
Transfer to Capitalised Acquisitions Fund	-	(750)
Balance at 31 March	<u>-</u>	<u>-</u>

This fund represents amounts received from the Heritage Lottery Fund and the National Heritage Memorial Fund.

DAME HELEN GARDNER BEQUEST

Balance as at 1 April	8	5
Income during the year	2	3
Transfers to Capitalised Acquisitions Fund	(7)	-
Balance as at 31 March	<u>3</u>	<u>8</u>

This fund represents royalties received under Dame Helen Gardner's bequest, restricted to purchasing literary or early 17th Century portraits.

15. ANALYSIS OF NET ASSETS BETWEEN FUNDS

Fund balances at 31 March 2008 are represented by:

	Unrestricted		Restricted	Total
	Designated £000	General £000	£000	£000
Fixed Assets	7,668	–	53,968	61,636
Investments	–	37	–	37
Current Assets	3,677	2,431	3,641	9,749
Current Liabilities	–	(2,118)	(53)	(2,171)
Total Net Assets	11,345	350	57,556	69,251

Unrealised gains included above:

On investment assets	–	20	–	20
Total unrealised gains at 31 March 2008	–	20	–	20

16. FINANCIAL COMMITMENTS

As at 31 March 2008 the Gallery had annual commitments under non-cancellable operating leases as follows:

	2008		2007	
	Land and buildings £000	Other Operating Leases £000	Land and buildings £000	Other Operating Leases £000
Operating leases which expire:				
Less than one year	–	3	–	4
Two to five years	64	10	56	10

The figure for land and buildings represents the lease on the Merton store which expires in 2009.

17. CAPITAL COMMITMENTS

	2008 £000	2007 £000
Capital expenditure contracted for but not provided in the accounts	653	200
Capital expenditure authorised but not contracted for	663	505

Capital expenditure contracted for but not provided relates to the costs of the Gallery's digitisation project, works to improve access to the first floor landing, replacing the chillers and the web development project. Capital expenditure authorised but not contracted for relates to various IT projects and plant and machinery upgrades, including replacement of the telephone system.

18. CASH FLOW INFORMATION*a) Reconciliation of changes in resources to net inflow from operating activities*

	2008	2007
	£000	£000
Net incoming/(outgoing) resources/surplus before revaluations	2,628	1,817
less: Investment income	(367)	(221)
Donated acquisitions	(143)	(71)
Loss on disposal of fixed assets	-	-
Depreciation	1,554	1,377
(Increase)/Decrease in debtors	7	213
(Decrease)/Increase in creditors	513	37
(Decrease)/Increase in deferred income	137	(148)
(Increase)/Decrease in stocks	74	340
Net cash flow from operating activities	<u>4,403</u>	<u>3,344</u>

*b) Analysis of Cash Flows***Capital expenditure and financial investment**

Payments to acquire tangible fixed assets	<u>(1,340)</u>	<u>(2,643)</u>
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Management of liquid resources

(Increase)/Decrease in short term deposits (current investments)	<u>-</u>	<u>-</u>
--	----------	----------

Return on investments and servicing of finance

Interest received	365	219
Investment dividends	2	2
	<u>367</u>	<u>221</u>

c) Reconciliation of net cash flow to movement in net funds

Increase in cash in period	3,430	922
Cash flow from change in liquid resources	-	-
Movement in net funds in the period	3,430	922
Net funds at 1 April	5,198	4,276
Net funds at 31 March	<u>8,628</u>	<u>5,198</u>

d) Analysis of net funds

	1 April 2007 £000	Cash flow £000	31 March 2008 £000
Cash at bank and in hand	5,198	3,430	8,628
Net funds	<u>5,198</u>	<u>3,430</u>	<u>8,628</u>

19. TRADING SUBSIDIARY**NATIONAL PORTRAIT GALLERY COMPANY LIMITED**

The National Portrait Gallery owns the whole of the issued share capital of 1 issued share of £1 nominal value of the National Portrait Gallery Company Limited, a company registered in England and Wales. The Company's principle activities are Retail, Gallery Hire and running the Gallery catering franchise.

A summary of the results of the subsidiary is shown below:

	2008
	£000
Profit and loss account	
Turnover	2,050
Cost of sales	(722)
	<u>1328</u>
Gross Profit	
Administrative expenses	(814)
	<u>514</u>
Trading Profit	
Interest receivable	1
Loan interest payable	(6)
	<u>509</u>
Profit on Ordinary Activities Before Taxation	
Taxation	–
	<u>509</u>
Retained in Company	<u>509</u>
Balance sheet	
Tangible fixed assets	–
Current assets	861
Creditors	(351)
Payment under Gift Aid to Gallery	(509)
	<u>1</u>
Net assets	<u>1</u>
	<u>1</u>
Share capital and reserves	<u>1</u>
Reconciliation of results of the Company to the Consolidated Statement of Financial Activities.	
	2008
	£000
Turnover	2,050
Intergroup transactions	–
	<u>2,050</u>
Trading income per Note 2c	
Cost of sales	(722)
Administrative expenses	(814)
Taxation	–
Intergroup transactions	369
	<u>(1,167)</u>
Trading costs included within SOFA	
Interest receivable	1
	<u>1</u>
Included in investment income per SOFA	

20. CONTINGENT LIABILITIES

During the year, the Gallery set up a trading subsidiary, National Portrait Gallery Company Limited. Following negotiations with HM Revenue and Customs, on 1 April 2007, the Gallery transferred its retail, venue hire and catering franchise to the company to mitigate the potential for tax liabilities in respect of non-primary purpose trading. At the time that these accounts have been prepared, HMRC has not notified us of any tax due or, if due, the extent of any potential liability.

21. POST BALANCE SHEET EVENTS

The financial statements were authorised for issue by the Accounting Officer on 16 July 2008. There were no other significant post balance sheet events.

22. RELATED PARTY TRANSACTIONS

The National Portrait Gallery's sponsor, the Department for Culture, Media and Sport, is regarded as a related party. During the year, the Gallery has had various material transactions (greater than £500) with the Department and with other entities for which the Department is regarded as the parent Department as follows: Arts Council of England, National Gallery, Tate Gallery, Victoria & Albert Museum, National Maritime Museum, Heritage Lottery Fund.

Other Related Party Transactions

Organisations in which Trustees or key members of management (or their connected persons) have an interest are also regarded as related parties. During the year, the Gallery entered into the following transactions with related parties under normal business terms:

<u>Related party</u>	Grants awarded £000
Sheffield Museums and Galleries Trust	18

Trustees: Sir Christopher Ondaatje donated £1,000,000 to The Portrait Fund. Amelia Fawcett donated £500 towards John Fletcher Appeal. The Marchioness of Douro and Amelia Fawcett were Patrons during the year (paying the subscription of £120 and giving £1,000 and £880 additional donations respectively) while Professor Sara Selwood was an Associate (£90 subscription and £160 donation).

Staff: Terence Pepper (the Gallery's Curator of Photographs) donated 12 photographs with an aggregated value of £290 to the Gallery's photographic collection.

Other: Sir Nicholas Blake (Trustee), donated 30 photographs with an aggregated value of £96 to the Gallery's photographic collection.



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