

National Portrait Gallery Annual Report and Accounts 2017-18

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

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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 31 March 2018. The Accounts have been prepared in a form directed by the Secretary of State for Digital, 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 Charities Statement of Recommended Practice (FRS 102).

The Trustees have complied with their duty in section 11 of the Charities Act 2011 to have due regard to guidance published by the Charity Commission and for the Commission's guidance on public benefit.

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 indicators agreed with the Department for Digital, 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 This act superseded the Treasury Minute of 2 December 1856 by which the Gallery was originally established.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 2011, and is a public benefit entity.

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.

Today the Gallery's collection is among the largest and most prestigious collections of portraits in the world in all media. The Primary Collection of paintings, sculpture, miniatures, drawings, prints, photographs, silhouettes and mixed/new media works contains some 12,597 portraits of the most famous people in British history. Of these, 4,109 are paintings, sculptures and miniatures, approaching 60% of which are regularly displayed at the National Portrait Gallery or elsewhere. In addition, there are some 8,471 works on paper, shown on a rotating basis of about 120 items a year.

Alongside the permanent collections displays which are hung chronologically, the Gallery presents a wide range of temporary exhibitions and small displays on a varied range of subjects, media and time periods. The Gallery's Learning 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.

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 regularly admitted to the collection. This material is used for study and exhibition, and works have been extensively reproduced in books and other publications. There are more than 335,000 images in the Reference Collections, divided between the Archive and Library's Reference Collection of about

85,000 items, mainly prints but also 2,500 drawings, 75 paintings, 140 sculptures, and a small but growing collection of popular ceramics, and the Photographs Collection of more than 250,000 photographs and historic negatives. The Heinz Archive and Library also contains 40,000 books and manages the Gallery's Records and Collected Archives.

Access to the permanent collections is free; however most of our temporary exhibitions are ticketed providing an increasingly essential source of revenue. Normally items not on display can be made available for viewing via the Acquisitions & Displays Registrar. The Collection is also made widely available via the Portrait Explorer within the Gallery, on the internet (at www.npg.org.uk) and in Gallery and other publications.

The Collection has been displayed at St Martin's Place since 1896. Before then the Gallery occupied other premises in Westminster, South Kensington and Bethnal Green. The present 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. In 2011 the Gallery entered into a long-term partnership with the Tate to house its stored collections in world-class facilities in South London. Prior to this stored collections were located in Merton, South Wimbledon. In recent years the conservation studios and art handling office have been upgraded at the Gallery.

The Gallery has ongoing national partnerships with Montacute House in Somerset and Beningbrough Hall in Yorkshire (both National Trust properties). 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 historic houses.

Structure, Governance and Management

The Gallery is a Non-Departmental Public Body supported by the Department for Digital, Culture, Media and Sport (DCMS). 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 Digital, 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, 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 are committees of the Board which cover audit and risk, finance, *the Inspiring People* project, remuneration and the investment of the Gallery's reserves.

A list of Trustees during 2017/18 and up to the date on which the accounts were signed is at page 33. Following their appointment, new Trustees are given a Trustees' handbook, policy papers and a full induction about the 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 Dr Nicholas Cullinan. 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 finances, 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 Directors' Group, which

reviews the Strategic and Corporate Plans, the Corporate Risk Register and monitors budgets and financial matters.

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, Visitor Experience and Interpretation.

The Gallery has a wholly owned subsidiary company, the National Portrait Gallery Company Limited. The Company has a Board of five Directors, including one Trustee, three Gallery senior executives (one of which is the Director of the Gallery), and an independent non-executive director.

In January 2012 HRH the Duchess of Cambridge became Patron of the National Portrait Gallery. In spring 2012 an independent foundation trust, The Portrait Trust, was established to work alongside the Gallery in promoting the public's enjoyment, understanding and learning through the medium of portraiture. A Memorandum of Understanding was agreed in January 2015 between the Portrait Trust and the Gallery which clarified how the two organisations would work together. The Gallery also agreed to provide the Trust with an annual grant of £20,000, over the three years 2015/16 to 2017/18, in order for the Trust to be able to cover its running costs and pursue its charitable objectives.

Details of the Gallery's external advisers are at pages 33 and 34.

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, ticketed exhibitions, publishing, trading and catering. 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 in the Wolfson and Lerner Galleries, and Porter Galleries, and by retail sales associated with the exhibitions made through the National Portrait Gallery Company Limited. Earning revenue in addition to the government's grant-in-aid allows a wider public programme to be offered.

The Gallery is an equal opportunities employer. The development of working practices and a working environment that facilitates this, in particular with regard to the employment of BAME and disabled people, are key objectives, as outlined in our Corporate Plan. The Gallery provides a range of training and personal development opportunities and safety and wellbeing policies, aimed at securing the health, safety and welfare of its employees, (see pages 19 to 21).

Gallery employees are involved in the development of policies, strategic and corporate plans and performance targets through corporate planning and performance management processes. 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 through Whitley Council and union meetings provide a forum for the discussion of staff issues. The Gallery continues to receive valuable support from volunteers, as detailed on page 20.

Objectives and Performance Indicators

The Gallery signed a new Management Agreement with the Department for Digital, Culture, Media and Sport in March 2017. The Agreement confirmed the Gallery's Corporate Objectives along with some specific priorities that the Secretary of State outlined for the Gallery. The Agreement also included twelve key performance indicators (KPIs) that the Gallery has to report against. These KPIs were the same as those the Gallery had reported against in past years, although in some cases the Gallery was still building a record over time for certain of the indicators, as the data relating to them had not been captured in earlier periods. These performance indicators relate to audience profile, learning and outreach, visitor satisfaction, income generation (both charitable and non-charitable) and engagement. The Management Agreement performance indicators are reviewed quarterly by Trustees and annually by DCMS. Reference is made to these indicators throughout the Annual Report with the Gallery's performance in 2017/18 detailed on pages 35 and 36, (with comparators for previous years provided where possible).

The 2017/27 Corporate Plan established six primary objectives for the Gallery's business plan over the next ten years as follows:

Charitable activities

- To extend and broaden the range of audiences for the National Portrait Gallery and its work through access and learning, a higher national and public profile, and effective communication;
- 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 the art of portraiture through outstanding research, exhibitions and displays, publishing, regional and digital programmes.

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.

The development of the Gallery's transformational, major capital project, *Inspiring People*, prompted a further two Objectives to be added to the Gallery's original six, these included:

- To make the Gallery a national hub for sharing ideas and expertise about portraiture with a dynamic centre for learning in London and a skills sharing network across the country.
- To create a digital presence which connects, inspires and engages audiences where digital is not seen as the remit of a single department to one where all teams have digital activity as a core part of their working strategy.

The activity plan that accompanied the capital elements of the *Inspiring People* project will be instrumental in developing and delivering these two additional Corporate Objectives.

The Management Agreement with DCMS introduced seven priorities set for the Gallery by the Secretary of State which included:

- to ensure that free entry to the permanent collections of the National Portrait Gallery will continue to be made available;
- to protect the world-class collections and front-line services of the Gallery;
- to continue to pursue commercial and philanthropic approaches to generating revenue which will complement grant-in-aid funding, and to seek innovative cost sharing solutions with other Arm's Length Bodies to maximise these additional sources of income;
- to take a strategic approach to partnership working and to seek out opportunities to work across the UK with other museums, cultural and third sector partners, including through the loaning of items, touring of exhibitions, and sharing of expertise;
- to prioritise access to arts and culture for disadvantaged young people and communities;
- to work with DCMS to engage internationally, especially with high priority countries as indicated by Government. This will include making use of and contributing to the GREAT Britain Campaign, helping DCMS to boost tourism, education and business;
- to give a high priority to supporting the delivery of the outcomes of the Culture White Paper which will set out the direction for arts and culture policy for this Parliament.

ACTIVITIES, PERFORMANCE AND PLANNED FUTURE DEVELOPMENTS

1) Extending and broadening audiences

Visitor numbers

The Gallery's audiences continued to develop on a national and international level during 2017/18, via visits to exhibitions, displays and the Collection on-site and access to our work online, and through our National Programme, touring initiatives and learning and participation projects. In a challenging year for attractions in central London, 1.1 million visits were made to the Gallery, a 43% year on year decrease. This reduction was partly due to comparison with popular exhibitions in 2016 (such as *Vogue 100* and *Picasso Portraits*) and to external factors, which are also influencing numbers at other museums and galleries. Omnibus research conducted by Morris Hargreaves McIntyre showed that London had become less attractive to some potential UK visitors, with cost, security fears, the drop in consumer confidence and transport issues cited as reasons.

During the period the Gallery held several high profile exhibitions, including *Cézanne Portraits*, which attracted just under 136,000 visitors, and the *BP Portrait Award 2017*, which was seen by over 234,000 visitors, 15,000 over target and a 25% increase on 2016. There was an uplift in the proportion of key target demographic groups, such as Black, Asian and minority ethnic audiences, which equated to 9% of overall visitors. Satisfaction levels remained high, with 98% of visitors describing their experience as 'excellent' or 'good', and 94% saying they would recommend a visit.

Communications (Marketing and Press)

Marketing campaigns continued to make use of both traditional and new media to expand the Gallery's reach. For *Cézanne Portraits* activity included branded coffee cups at PAUL, the cinema release of Exhibition on Screen's film *Cézanne: Portraits of a Life* and working with a street artist to reproduce the lead marketing image in chalk in Trafalgar Square. Digital and social channels continued to grow, with notable activity including Facebook live broadcasts with Night Czar Amy Lame and art critic Alastair Sooke and the creation of an interactive game called 'Selfie Snap' with participants in the Young People's Guide to Self-Portraiture. The new Customer Relationship Management and Ticketing System (CRMTS) has been successfully established and has improved the Gallery's processes and service for visitors.

Press activity resulted in widespread media coverage for exhibitions: the critically acclaimed *Cézanne Portraits* received a series of five star reviews and was at the top of several national newspaper

round-ups of best art events of the year. There was extensive news exposure for acquisitions including Simon Frederick's *Black is the New Black* photographs on *BBC News at Ten*, Nigel Shafran's portrait of the BBC Radio 4 *Today Programme* presenters in *The Sunday Times* and *The Guardian* and Colin Davidson's portrait of Ed Sheeran in national and regional media ranging from *Desert Island Discs* to the *Daily Star*.

Late Shift

Late Shift continued to attract a large and diverse audience attending lectures, tours, screenings and drawing activities. *Cézanne Portraits* proved popular with well-attended talks, Life-drawing classes and film screenings. A year-long initiative, *I Am Me*, marked the 50th anniversary of the partial decriminalisation of male homosexuality and in November we celebrated the 10th anniversary of the Gallery's pioneering LGBTQIA programme, *Queer Perspectives*, with a Late Shift Extra featuring performances, talks, film, drawing and speed dating which attracted an audience of over 2,000.

Friday Evening Music

Performances during the year included Wigmore Hall's *Ignite* ensemble with pieces created by young people, two evenings from regular participants Concordia with *Masquerade*, a musical journey behind the mask, and *Impressionism in Music*, responding to the *Cézanne Portraits* exhibition; *Musicke in the Ayre*, lute songs focused around composers in the Stuart Court and *Apple of my Eye* – troubadours of London's modern folk scene; regular Friday contributors the Royal College of Music with their response to the *Taylor Wessing Photographic Portrait Prize* and the BRIT School's response to the *BP Portrait Award*. The award-winning flautist, Sara Minelli, performed intriguing new music and Opera Holland Park brought a programme of Rossini arias. The regular Friday Evening Music series has taken place at the Gallery since May 2000 presenting a wide range of music to visitors from solo performances, to new commissions, choral work, folk, jazz, new music and so much more, often in response to the Collection or to special exhibitions. Going forward music will be included as part of an enhanced programme of events including creative activities, DJs, talks, tours and occasional live music and performance.

The Gallery is extremely grateful to the visitors to Friday night music who have been so supportive of the programme over many years and to all those who took part.

Families

The Gallery is committed to being family-friendly and has a dedicated cross-Gallery Family Working Group. Free art materials are on offer from our Family Activity Base (FAB) every weekend and during school holidays to support families in creativity and portrait activities. A new free family trail called 'Summer Sketching' launched last summer, created by children's book illustrator Marta Altes to inspire families to explore the Collection, learn visual literacy skills and create their own art. We also provided free artist-led family art workshops that included model making, animation and photography.

Young People

Youth Forum, the Gallery's youth-advisory group, met monthly and co-developed youth workshops, consulted on youth digital resources and designed youth social media campaigns. Youth Forum researched and presented Gallery talks on Van Dyck while a group of young people worked with an artist to create a digital guide to self-portraiture. Monthly artist-led workshops covered photography, poetry, painting, and the *BP Portrait Award: Next Generation Young Peoples' Private View* attracted over 200 young people to the Gallery.

Schools and Colleges

During 2017/18, 36,650 individual children and young people participated on-site with a further 595 participating off-site. New initiatives for the primary programme highlighted key anniversaries, including the centenary of women's suffrage. The multi-disciplinary programme includes creative art making, philosophy and conversation to explore the self and community. We launched and promoted

a new schools exhibition ticket, offering discounted opportunities for schools to visit our exhibitions. Teacher CPD events focussed on our exhibitions programme, enabling teachers to network, discuss ideas and learn from experts on approaches to the subjects.

Adult Programmes

The Gallery's core offer of lectures, practical art workshops, music, tours and talks in response to the Collection and temporary displays and exhibitions performed well. A study day around *The Encounter: Drawings from Leonardo to Rembrandt*, featured speakers from The V&A, British Museum, UCL and the University of Nottingham, and featured a drawing session using techniques and materials of the period. A new programme of daytime in conversation events with the Director included appearances by Catherine Opie and Kehinde Wiley.

Access

Musical Portraits, our annual music and creative arts project for young people with autism, took place in partnership with Wigmore Hall and Key Arts. This long-term successful partnership saw a group of young people work with artists and musicians, responding to the Collection over 4 days, and this culminated in a concert at the Wigmore Hall. Our monthly picture description talks for the visually impaired and monthly BSL talks continued to reach new audiences and Creative Spaces, our art course for adults with learning disabilities took place in spring and autumn.

Outreach

Our children's hospitals programme promotes health and wellbeing with creative arts workshops for children and their families in clinical settings. We reached 580 children and their families during this period at our partner children's hospitals in London – Great Ormond Street, Evelina, Newham University Hospital and the Royal London at Whitechapel. We also distribute a free illustrated activity book called *Magical Journeys* to all children and their families at each hospital. Confirmation of 3-years funding from Delancey and DIL Trust UK enabled us to launch a new 3-year project called *Playful Portraits* with a dedicated Project Manager to realise project potential and work closely with play therapists, nursing staff and teachers to ensure the project is relevant, challenging and inspirational.

Creative Connections

After four successful years working with schools in London, we piloted a national project in partnership with Nottingham Contemporary. GCSE art students from Farnborough Academy in Clifton, Nottingham worked in collaboration with social documentary photographer Katherine Green to explore Nottingham connections in our Collection and consider notions of achievement and success. They then focussed on photographing and interviewing local community heroes. Their work was exhibited at Nottingham Contemporary last summer and seen by over 20,000 people. A celebration event saw members of Clifton community turn out in force to support the project. The exhibition then came to the National Portrait Gallery in the autumn and the public programme included talks by Nottingham luminaries Paul Smith and Vicky McClure. The project saw the acquisition of 4 new portraits for the Collection selected by the young people.

Interpretation

The refurbishment of the 20th Century Galleries gave the opportunity to present artistic development and history of the period in a chronological hang with new interpretation throughout. Film was included in a permanent gallery for the first time, with excerpts from the *Battle of the Somme*. The Gallery also created films to explore artists' techniques, featuring Renaissance drawing materials in *The Encounter* and wet-plate collodion photography in *Victorian Giants*. For *Cézanne Portraits*, the audio guide was bought by approximately 20,000 exhibition visitors.

National Programme

The three year nationwide tour of Van Dyck's last self-portrait culminated in the portrait's display at the Gallery alongside works by contemporary artist, Julian Opie. The portrait was the highlight of nine exhibitions and displays in Margate, Manchester, Birmingham, Dulwich, Newcastle, Edinburgh and London. Seven contemporary artists, including Mark Wallinger, Marcus Coates and John Stezaker, made or displayed works responding to the work and 12,500 people took part in public programmes. Over two million visitors saw the portrait during the course of the project.

In the 50th anniversary year of the partial decriminalisation of male homosexuality in England and Wales, the exhibition *Speak its Name* was shown at Sissinghurst Castle Gardens. Other exhibitions taking place around the country included *Paul Smith to J K Rowling: BP Portrait Award Commissions from the National Portrait Gallery* which was shown at the University of Hull to help the City's celebration as the UK's City of Culture and *More Real Than Life: 19th-century Portrait Photography* an exhibition in partnership with Birmingham University's MA in Art History and Curating.

The *Understanding British Portraits* network held six seminars and conferences with a combined attendance of 376 delegates, including an event organised in collaboration with the *British Art Network* and *European Paintings pre-1900 Network*. The Network also supported three Research Fellows to undertake portrait research projects in Rugby, Bath and Dagenham.

The Gallery made fifty-five separate loans on a short-term basis and fifty-nine on a longer-term basis. A wide range of exhibitions received loans, from *Queer British Art* at Tate Britain to *The Pursuit of Pleasure: Casanova's Europe* touring to Fort Worth, Texas, San Francisco and Boston.

2) Developing the Collection

Introduction and Highlights of Primary Collections Acquisitions

The past year has seen a number of important additions to the Collection. In the area of historic portraiture the Gallery acquired the only known portrait of the abolitionist campaigner Margaret, Lady Middleton by the miniature painter Jeremiah Meyer, and a pen-and-ink self-portrait by the sculptor and medallist Theodore Spicer-Simson. In the twentieth century, a highlight is the self-portrait of émigré artist Josef Herman (acquired under the Acceptance in Lieu scheme).

Key among the many notable contemporary acquisitions were the gift of *Black is the New Black* a portfolio of photographic prints depicting influential black Britons by Simon Fredericks, to be displayed in the autumn of 2018.

Among the other photographic acquisitions was Stephan Loewentheil's gift of eight works by Oscar Rejlander, several of which featured in the Gallery's *Victorian Giants* exhibition.

The Gallery secured some outstanding long-term loans for display alongside the permanent collection. These include a portrait of the travelling performer and memoirist Joseph Boruwlaski by Benjamin Marshall; a painting of Daniel Lambert, the Keeper of Leicester Gaol and at the time of his death the heaviest man in England; and John Hamilton Mortimer's portrait of the Chinese artist Chitqua (Tan-Che-Qua), all lent by the Royal College of Surgeons. The loan of Ford Madox Brown's striking Pre-Raphaelite portrait of the commercial manager John Osborn Riches adds to our representation of the mercantile figures who helped establish Britain's industrial reputation during the nineteenth century.

Commissions

To coincide with the sixtieth anniversary of BBC Radio Four's *Today* programme in October 2017 the Gallery commissioned a video portrait of the programme's five presenters. The artist, Nigel Shafran, who is celebrated for his subtle observations of everyday life, filmed John Humphrys, Mishal Husain, Sarah Montague, Nick Robinson and Justin Webb talking about their memories and daily lives. While

Today listeners are accustomed to the presenters discussing world affairs, the personal content of *Today Everyday*, provides a change of context for the presenters' voices.

The philanthropists, Sir Harry Djanogly and his wife, the late Lady Carol Djanogly, have as long-term supporters of the Gallery, assisted in the funding of major acquisitions and exhibitions. In a portrait by the Dutch artist, Wim Heldens, winner of the First Prize in the *BP Portrait Award 2011*, the couple are depicted in the living room of their London home looking at an artwork from their own collection, held by their daughter. The narrative skilfully reflects both their love of the visual arts and their dedication to each other.

The Photographs Collection

The Gallery's twentieth-century holdings were enriched by the addition of a portrait by Ghanaian-born photographer James Barnor, a self-portrait by Graham Nash, a portrait of Francis Bacon by Guy Bourdin, and a group of works by Laurie Lewis. Widening our remit, we acquired five portraits from Tish Murtha's *Youth Unemployment* series made in Newcastle (1979-80). Two photographs by Adam Fuss, a pinhole camera self-portrait by Christopher Bucklow, hand- coloured prints by Walter and Zoniel increased our representation of recent photographic practice. Further contemporary acquisitions were made from Miles Aldridge, Richard Ansett, William Greiner, and Ed Marshall. Portraits of actor Jack O'Connell by Tereza Červeňová and cinematographer Roger Deakins by Josh Redman were commissioned through the John Kobal New Work Award.

Reference Collection: The Heinz Archive and Library

Notable Reference Collection purchases this year included a collection of over one hundred caricature lithographs from the Victorian satirical periodical, *The Hornet*, purchased from Meridian Rare Books and two important French prints of the Chevalier d'Eon purchased from Grosvenor Prints. Gifts to the Collection included a selection of drawings of British writers and actors by the American illustrator Eric Pape, donated by Dr Gregory Conn, and a panoramic chromolithograph recording Beerbohm Tree's lavish production of Shakespeare's *Richard II* given by Kraig Donald in memory of his late parents Patricia E.M. and George H. Donald. The archive received a gift in accordance with the wishes of the late Anne Horatia Piper, Lady Piper, widow of Sir David Towry Piper, Director of the Gallery 1964-1967, consisting of his professional papers including manuscripts, papers and reviews relating to his work at the Gallery and external projects. The National Portrait Gallery Archive and Library achieved Accredited Status against the UK Archive Service Accreditation Standard.

Collections Care and Collections Management

One of the major projects this year was the rehanging of 121 works as part of the refurbishment of the Gallery's early twentieth century rooms. The major rehang of these areas (Rooms 30 and 31), which opened to the public on the 4 November 2017, included the very careful redisplay of the Gallery's largest works. Conservation also undertook an assessment of the Gallery's 47 Lucian Freud sketch books, along with the treatment of 55 Art Union bronze medallions. Work continued apace at our regional partners; the Gallery's works were carefully moved as part of Montacute House's all important building survey. Finally, an online appeal was launched to conserve the Gallery's portrait of Lady Mary Wortley Montagu (NPG 3924), an eighteenth century pioneer who travelled in Turkey and brought the science of inoculation to Britain. The fundraising effort was successful and work is expected to start soon.

During the year a number of Senior Curators left the NPG following many years of dedicated service. Tarnya Cooper, Curatorial Director, and Paul Moorhouse, Head of Collection Displays and Senior Curator of Twentieth-Century Collections, stepped down in 2017 followed by Peter Funnell, Head of Research, and Phillip Prodger, Head of Photographs in 2018.

Portrait Fund

The Portrait Fund is a restricted fund within the consolidated accounts. However, it operates under its own trust deed, although it is not a separate entity; the Trustees of the Portrait Fund are Sir William Proby and Allegra Berman, from the Gallery's own Board of Trustees. The Fund also has two independent Trustees, Lady Douro and Sir Christopher Ondaatje. Sir William Proby resigned from his position as a Portrait Fund Trustee after his term as Chairman of the Board of Trustees of the Gallery expired in June 2017. Sir William was replaced by David Ross, who took over as Chairman of the Gallery Board of Trustees in September 2017.

The Gallery is close to completing the Portrait Fund in 2017/18 although focus over the last year from major donations has primarily been on *Inspiring People*. The Fund currently has £9.7 million thanks to investment returns and small and mid-sized donations.

For further information about supporting the Gallery and the Portrait Fund, please contact Pim Baxter, Deputy Director on 020 7312 2448.

3) Increasing the Understanding of and Engagement with the Collection

Introduction

Over this period, the partnerships and collaborations that we have been able to create have enabled us to deliver a wide range of activity. Going forward this will continue to be the case and we wish to ensure that we work with a network of innovative and expanded colleagues and partnerships across all that we do.

In a year that has seen within the exhibition programme, the mix of Renaissance drawings to Cézanne paintings, Victorian photography to the film work of Tacita Dean, it has been a rich season amplified by the counterpoint of displays looking at the full range of the Collection.

Exhibition curators, artists, writers, researchers, staff and visitors all contribute to our successful programmes and our knowledge of portraits and portraiture. Working with other museums and galleries and universities, nationally and internationally, has also provided insights into our work and the Collection.

As we develop our plans for the future the researching, cataloguing and presentation of the Collection across all media is essential and a key focus for the Curatorial team. Showcasing the Collection in new and different ways will be at the heart of our work with the displays, exhibition and publishing programmes. We have ambitious plans for touring the Collection internationally, which builds on our reputation but also brings the National Portrait Gallery to new audiences.

Exhibition Highlights

The exhibition programme has shone with high profile exhibitions this year. *The Encounter: Drawings from Leonardo to Rembrandt*, focussed on Renaissance and Baroque portrait drawings that examined the moment of encounter between artist and sitter. Including works only from British collections highlighted this rich and impressive area in British collecting. *Cézanne Portraits* represents a great achievement. This exhibition, which was initiated by the Gallery, culminated in a partnership with world-class institutions, the Musée D'Orsay and the National Gallery of Art, Washington, and was curated by the preeminent Cézanne scholar John Elderfield. *Victorian Giants: The Birth of Art Photography* has been a wonderful opportunity to work with our Patron the Duchess of Cambridge on a subject that is close to her heart, with a trail through the exhibition of her favourite works. It also supported the Gallery's mission in 'furthering the understanding of portraiture', as it became clear through research that Clementina Hawarden should feature as a new discovery, emphasising the importance of women's place in the canon in the anniversary year of suffrage. Finally, *Tacita Dean: PORTRAIT*, which opened in March 2018, has been a pivotal moment in the exhibition programme,

as the first show devoted solely to film. The project is an unprecedented partnership between the National Portrait Gallery, National Gallery and Royal Academy and opened to great critical acclaim.

Immunity from Seizure

In response to concerns from museums that an increasing number of international lenders were refusing to lend items to UK museums without a guarantee of their safe return, legislation was created to protect these objects. The Tribunals, Courts and Enforcement Act 2007 includes provisions which give immunity from seizure for cultural objects which are loaned from overseas to temporary public exhibitions in approved museums or galleries in the UK where conditions are met when the object enters the UK.

If the conditions of this legislation are met, a court cannot make an order to seize an object that has been loaned from abroad for an exhibition, except where required to under EU law or the UK's international obligations.

The National Portrait Gallery applied for approval under Section 136 of the Tribunals, Courts and Enforcement Act 2007 on 15 December 2008 and this was granted on 17 February 2009. The Gallery provides information on its website for Immunity from Seizure:

<http://www.npg.org.uk/about/foi/immunity-from-seizure.php>.

The Galleries and the Displays

A broad range of displays took place across the Gallery. Highlights among the anniversary displays were *Martin Luther and the English Reformation*, marking 500 years since the beginning of the Protestant Reformation in Europe and its impact in England, and *Votes for Women*, commemorating the passing of the Representation of the People Act in 1918 which gave many women the right to vote in general elections. Other notable displays included *One Unbroken Stream*, exploring a chain of teacher-pupil relationships with works drawn from both the National Gallery and NPG collections, and *His Picture in Little: Shakespeare, Hamlet and Tacita Dean* in which the artist's film in miniature was presented alongside miniature works from the Collection.

Research Programmes

The Archive was awarded funding for the digitisation and cataloguing of a collection of fashion plates in the Reference Collection, and work continued on the cataloguing of the Lucien Freud archives, which is scheduled for completion in August 2018. The *Later Victorian Portraits Catalogue* project was brought to a close at the end of July, after the completion of the 'Actors and Theatre World' group of subjects. Collaborations with the National History Museum in Denmark, University College Dublin and the AHRC Joseph Banks network continued successfully. The first student to take part in the Gallery's Collaborative Doctoral Partnership programme was awarded her thesis by the University of Sussex, and five further doctoral projects are in progress. The period was productive for individual members of staff; in addition to Gallery publications relating to exhibition research, such as *Victorian Giants*, publications included a major book on extra-illustration and an essay on the portraits of suffragettes (please see: www.npg.org.uk/research for more information).

Cataloguing Projects and Plans

Nearly 750 Reference Collection items were catalogued including the successful completion of an externally funded project to describe and digitise a collection of engraved fashion plates. Cataloguing of regularly accruing Gallery Records continued, significant progress was made with top-level descriptions for Collected Archives, and cataloguing of the archives associated with Lucian Freud proceeded successfully. An externally funded project to catalogue photographers' monographs completed with a total of 1,253 titles described including those on male photographers 'A-M' and all titles relating to female photographers. 2,500 portraits in external collections were recorded and 1,200 portrait images were processed.

Photographs Collection Cataloguing

Over 2,300 photographic portraits were added to our collections database. This includes the conversion of over 2,000 carte-de-visite sized albumen prints by 1860s studio photographer Camille Silvy. All twelve daybooks have now been fully photographed, and records will continue to be systematically checked and uploaded to our website. A 'Tell Us More' feature on our website encourages online visitors to enhance and engage with this collection. Other important collections which have been added include photographs by Court Photographer Speaight Ltd, Graham Keen working in the 1960s for *International Times* magazine, 1970s crafts practitioners by David Cripps, iconic images from the 1970s by Clive Arrowsmith and a gift of photographs from the Estate of Betsy Granger.

Publishing

The Gallery's list of publications for 2017/18 has continued to expand. Key catalogues to accompany exhibitions included *The Encounter*, *Cezanne Portraits* and *Victorian Giants*. In addition, a Gallery-exclusive paperback was produced for *Cezanne*, alongside a smaller publication, with a combined print run of almost 40,000 copies across the *Cezanne* range. Also, an accompanying postcard pack was created for *Victorian Giants*. As usual, two smaller publications were produced for competitions *BP Portrait Award* and *Taylor Wessing Photographic Portrait Prize*, with the latter selling out shortly after the exhibition closed due to an appealing cover image and extensive press coverage. Two core titles were published to establish a new range around *100 Portraits: 100 Pioneering Women* and *100 Photographs*, both of which have had strong on-site and trade sales. *Jane Austen and her World* is the latest volume in our companion series and commemorates the 200th anniversary of her death. Finally, a number of paperback catalogues were released into the trade, to continue sales and interest in 2016/17 titles *Picasso Portraits* and *Vogue 100*.

4) Making the Gallery a national hub for sharing ideas and expertise about portraiture

The Gallery has opened up to share its skills and expertise from different functions nationally and internationally over this period.

The Subject Specialist Network *Understanding British Portraiture* supported by Arts Council England and the Gallery has continued to thrive, in total holding: nine seminars, private collection visits, and study days in 2016/17 and 2017/18. In all, we had approximately 487 delegates. This included 188 at the joint-Subject Specialist Network 'Why Exhibitions?' conference 21-22 Feb 2018. All the events are archived and can be viewed at <https://www.britishportraits.org.uk/events/>. Several of them within the past two years have been podcasted and some have highlights and in-focus films. The website had a substantial upgrade in the winter of 2017/18, which has improved the design and accessibility on mobile devices.

The Learning and Curatorial teams worked with the National Trust to develop training programmes for the volunteers from Montacute House, to increase their confidence and enthusiasm, ensuring a high level of visitor engagement with the Gallery's Collection on display at the property.

The Director of Participation and Learning worked with the British Council to co-produce a course on audience development for museum professionals in Rio de Janeiro. The programme formed part of the Museums Academy, a three-year legacy programme from the Rio Olympic Games in 2016. This course led to a two year skills sharing partnership between the Gallery and Instituto Salles Moreira (based in Rio and Sao Paulo), that enables exchange opportunities for members of the Learning teams in London and Brazil. Skills sharing opportunities working with the British Council, led by the Gallery, continue to be developed, with the Director of Participation and Learning designing and leading a course on audience development, working with the National Gallery, Sofia. Further opportunities working with the British Council to connect Skills Sharing and Exchange to international touring exhibitions and projects are being actively explored.

Skills Sharing nationally through the sector leadership activity is at the heart of the *Inspiring People* project, for which detailed planning is currently underway. Within this project is an extensive sector leadership and skills sharing programme for regional museums and galleries as well as a commitment to invest in diversifying the workforce and providing more entry points to working in the sector. A new work experience programme and a youth volunteering scheme are two exciting ways in which this project will contribute towards achieving these goals at the National Portrait Gallery.

5) Creating a digital presence which connects, inspires and engages audiences

Introduction

We are now in the implementation phase of our digital transformation following the Gallery's 2016 digital strategy. On the Gallery's website, visitors making 3.85 million visits over the last year have benefited from a new, strikingly visual and design-led site, realised at no cost by the in-house Digital team. Image banners and text content now stretch right across the screen, fully optimised for mobile and tablet devices. The new style home page, all landing and introductory pages were followed by new look Exhibition pages, the Events listing and most recently a beautiful transformation of the Search the Collection area, providing our visitors with significantly larger images more prominently displayed. Thousands of pages have now been converted and the process will be completed during the year ahead.

These changes lay the groundwork for the Gallery's *Inspiring People* project, where the emphasis will shift towards the development of features required to fulfil digital ambitions, notably the *Picturing History* project, and significantly developing the digital infrastructure required around the Gallery. Already we have created a much more engaging visitor experience and are measuring the impact of changes through various metrics, from a revival of the number of 'search the collection' visits to record levels of public participation and contributions through the Tell us More feature. We have also made customer journeys shorter and more frictionless when buying tickets, memberships and making donations and consequently the percentage of tickets purchased online are at record levels.

Digitising the Collection

Over 142,000 different portraits from the Gallery's collection have been digitised in high resolution; over 5,500 over the last year. The refurbishment of the 20th Century Galleries enabled us to digitise a selection of sculptures from the period in 3D for the first time, to be shortly integrated into the Gallery's main website. The Digitisation team also developed features for viewing the Gallery's stereoscopic photographic portraits online, along with providing a page turning feature for the Rejlander album for the Victorian Giants exhibition. Other priorities have been the Gallery's Camille Silvy daybooks, the Vanity Fair chromolithograph collection, the autochrome and the Fashion Plates collections as well as supporting the *Tudors to Windsors* exhibition international tour. We have furthermore developed partnerships with Smartify for an identification and interpretation app in the Gallery, and with Boulevard for the Gallery's first augmented reality app exploring the life and times of Tudor diplomat Sir Henry Unton.

Key Digital Projects

As we move to customer-facing 'digital by default' services, notable successes have been with a new digital submission process for the *Taylor Wessing Photographic Portrait Award* seeing a £49,000 uplift in registrations, as well as record levels of registrations for the *BP Portrait Award*. Working smartly within our resources, automated workflows now see a portrait catalogued one day appear online the next. Entries from printed period catalogues and curator-written Gallery publications are now appearing online in the same timeframe. We will be working towards delivering ambitions outlined in the Gallery's *Picturing History* project, a digital resource with films and facilitated discussions.

6) Increasing and Developing Resources

Financial summary

2017/18 was a challenging year for the Gallery in terms of meeting internal financial targets and audience development objectives, as well as in maintaining the trend of rising results across the range of performance indicators agreed with the Department for Digital, Culture, Media and Sport (DCMS). A reduction of 43% in the Gallery's general visitor numbers compared to the numbers achieved in 2016/17, made it a difficult year for certain lines of our self-generated income. Nonetheless, the Gallery also had some very notable successes in securing donations for its *Inspiring People* project, which have provided a secure foundation for the project's fundraising in the future.

Income from donations and legacies and other charitable activities

A combination of successful income generation across the Development team has brought their total income over budget. Individual Giving and Trusts and Foundations in particular have balanced fundraising for core income with the demanding target of £35.5m for the *Inspiring People* project.

The Gallery's approach to fundraising

The Charities (Protection and Social Investment) Act 2016 requires the Gallery to provide extra information in its annual report about its fundraising activities. In particular, any agreements with professional fundraisers or commercial participators as well as providing information on compliance with voluntary fundraising regulations.

We do not use consultant fundraisers to solicit gifts from prospects and donors. All gifts are solicited by NPG fundraisers who follow a code of conduct as set out in our Ethical Fundraising Policy and adhere to guidelines stipulated by the Charity Commission and Fundraising Regulator. We are also mindful of the General Data Protection Regulations (GDPR) and have a Privacy Policy and in house Data Protection Officer. The Gallery uses a Customer Relationship Management (CRM) system to record approaches and solicitations to ensure appropriate levels of communication are maintained. Fundraising activities are monitored by heads of team, the Development Director and Trustees. The Gallery works with volunteer committees to fundraise including a Development Council, Campaign Council and Gala Committee. Volunteers work closely with the Development team and are directed by them in all of their activity. The volunteers also follow the code of conduct set out in our Ethical Fundraising Policy and adhere to guidelines stipulated by the Charity Commission and Fundraising Regulator. Each member receives a terms of reference document which sets out what is expected of them. We meet regularly with all our volunteers both individually and as a group to set priorities and manage our members' activities.

The Gallery operates a risk register to manage risks around all Gallery functions including fundraising. In 2018/19 we are developing more detailed guidance on donor care to update and supersede the Ethical Fundraising Policy.

During the year there were no failures of compliance and the Gallery received no complaints about its fundraising activities.

The Gallery protects vulnerable people and other members of the public from unreasonable intrusion, in that it does not cold call, operate telephone fundraising, street fundraising or undertake mass direct marketing campaigns. The Gallery did not undertake any wealth screening in 17/18. The Gallery's CRM system enables it to monitor approaches and ensure no one experiences multiple approaches or solicitations which might place pressure on them to give money.

Individual Support (Patrons, Associates, Members)

Individual Donors supported several important projects at the Gallery this year including making significant gifts to support a joint publication for the Tacita Dean collaboration and a number of contemporary acquisitions. Seven new Patrons and one new Life Patron joined in 2017/18. In

addition, the Gallery launched a new higher level donor group, the Director's Circle and received support for exhibitions from 10 donors.

Despite lower than forecast visitor numbers, the Gallery's Membership scheme had another strong year. Over 3,000 new Members were recruited, many of these during *Cézanne Portraits*. Membership figures fluctuated around a baseline of 14,500, and the overall retention rate was 70%. The Gallery met Gift Aid targets across Membership and Ticketing.

Development Council

The Development Council has seen a change in membership since some members transitioned to the *Inspiring People* Campaign Council, while David Ross, former Chair, also took over as Chair of the Board of Trustees and of the Campaign Council. New members include Philip Hoffman, Jane Suitor and Denzyl Fiegelson. The Council met twice this year and members continued to make meaningful introductions to their personal and professional networks, contributing to the Gallery's cultivation of donors and supporters.

The American Friends of the National Portrait Gallery

The Gallery continued to attract a good level of support from the US and has hosted three events in New York over the last year. Amanda Pullinger joined the Board and the Gallery would like to thank Jeffrey Marks who stepped down from the Board, but will continue to assist the Gallery with pro bono legal support.

Charitable Trusts and Foundations

Trusts and foundations remain a key source of funding for many aspects of the Gallery's work. Supporters of the Gallery's displays programme include The Elizabeth Cayzer Charitable Trust for *One Unbroken Stream*, and the William Brake Charitable Trust for *Samuel Fosso Portraits*. The Ashley Family Foundation and the Idlewild Trust funded the cataloguing and digitisation of a collection of fashion plates project; and The Thompson Family Trust supported the Gallery for the first time. We are grateful to DIL Trust UK for continuing to help fund the Hospitals programme and The Lord Leonard and Lady Estelle Wolfson Foundation for the ongoing support of the access programme.

Corporate Support

The Corporate Partnership programme had fourteen partners in 2017/18, with new additions McKinsey, Fine Art Group and Robert Walters. Corporate Development met its financial target this year, which saw several new headline sponsors join the Gallery, including: McCain as the Family Programme Sponsor; 24 Sèvres sponsored *Cézanne Portraits*; Delancey continued its sponsorship for the schools and colleges programme, and began its three year commitment to support our hospital programme. For the first time, the Gallery secured a corporate sponsor for a major display initiative: *Rebel Women*, celebrating 100 years since suffrage. MGallery by Sofitel is sponsoring this year-long programme. Multi-year partners continued to offer long-term support, including BP for the *BP Portrait Award*, now in its 29th year of sponsorship, and Taylor Wessing for the *Taylor Wessing Photographic Portrait Prize* which celebrated 10 years of support in 2017/18. Herbert Smith Freehills continued as the Spring Season sponsor.

Fundraising for Inspiring People

The Gallery has embarked on fundraising for this major capital project and has secured £21.2m, 60% of its £35.5m fundraising target. The Heritage Lottery Fund (HLF) awarded the project £9.4m, which included an initial development grant of £900,000. In addition to this we have secured a number of significant donations and grants. The Gallery aims to reach its fundraising target by March 2019.

Income from other trading activities

Corporate Events and Venue Hire

In 2017/18 venue hire patterns changed with the Gallery's new exhibition dates. Events during *The Encounter: Drawings from Leonardo to Rembrandt*, *BP Portrait Award 2017* and *Cézanne Portraits* were held for corporate partners including Herbert Smith Freehills, McCain, BP, and Lazard. The autumn and Christmas period was a peak time for private venue hire, with events held on most of the key dates during the period. Income was maximised mainly through high-value bookings for new clients including One Fine Stay, Aralon, Natwest and Viacom. In February, the Gallery hosted its first London Fashion Week show for Erdem, which was a full day private hire and dinner for the designer. The thirteenth annual fundraising Portrait Dinner took place on Monday 12 March. The Portrait Dinner raised over £148,000 of unrestricted income for the Gallery, against a target of £120,000, through ticket sales, a Luxury Raffle and a Silent Auction. 210 guests attended dinner across the Second Floor Galleries, including our Guest of Honour, Tacita Dean, who during the champagne reception, gave guests an insight into her exhibition *Tacita Dean: PORTRAIT*. Private hire income for the financial year was £271,000 against a £335,000 target, and confirmed corporate hire income was £101,000 against a £110,000 target. Venue Hire finished the year at £372,000 against an overall income target of £445,000.

Trading company

The Gallery's subsidiary trading company, the National Portrait Gallery Company Ltd, earned profits of £764,379. The Company will Gift Aid these profits to the Gallery. The Company's business includes Retail, Venue Hire and the catering franchise with Company of Cooks. The profits in 2017/18 were £96,000 ahead of budgeted profits for the year. This was a good result for the Company against the back drop of a 43% decline in visitor numbers to the Gallery in the year. There were also significant shortfalls in visitor numbers to all of the charging exhibitions held over the year. This too affected the retail sales figures budgeted for those exhibitions. As a result, customers to the on-site shops were down 19% compared to the previous year and average transaction values were 3% lower. However, Retail profits were £302,000, £80,000 ahead of the budgeted target for the year, mainly as a result of lower than budgeted cost of sales. Venue hire struggled to achieve the budgeted profits for the year, posting profits of £254,000, which were short of its budgeted target by £68,000. The catering franchise performed well, exceeding its budgeted commission of £450,000 by £42,000, despite the significant decline in visitor numbers during the year.

Retail

Retail achieved some notable achievements during 2017/18 despite the challenge presented by a fall in Gallery visitor numbers. The resilience of the retail operation was such that net sales income only dropped 19% to £2.1 million (£2.6 million previous year). The Gallery achieved some record breaking KPIs – spend per head was £1.93 (against £1.66 previous year) and the conversion rate was 14% (against 10% previous year). Average Transaction Values were slightly lower at around £12. It was also the fifth year in a row that Retail had broken the £2 million threshold and continued to return a solid profit to the Gallery as a result of careful cost control and margin protection. Exhibition catalogues continued to generate highest sales with the most standout product being a Howard Hodgkin print edition bringing in well over £100,000 in sales, affirming the existing strategy to develop higher end print sales. Online grew such that it generated 11% of total retail income (from 8.5% previous year).

Rights and Images

The Rights and Images team generated income of £310,000 in the year. Completion of the keywording project made the Collection easier to search and discover for our clients, who continue to license images via the e-commerce image licensing website. We launched with the Smartify app, to enhance on-site engagement with the portraits, and with a Henry Unton augmented reality app to bring the Collection to life in exciting new ways. The Picture Researcher role continued to deliver cost savings and improve communications with lenders/copyright holders. We continue to monitor changes

to intellectual property law as the UK prepares to leave the European Union, and the team is active in the wider UK cultural heritage and picture library sectors. The Rights and Images team continued to promote the Gallery as a site for location filming, and earlier this year organised a high profile shoot for an upcoming Netflix series.

Catering franchise

Overall, the Portrait Café and Portrait Restaurant had another successful year, delivering slightly higher commission than budgeted, and income earned from the catering franchise in the year was £492,000. This result was £30,000 (6%) lower than the commission earned in the previous year, but nonetheless a good result in the face of a large decline in visitors to the Gallery compared to 2016/17.

Investment and Other income

The Gallery as a group receives a small amount of investment income from bank interest and dividend payments. This amounted to £3,000 in 2017/18, compared to £10,000 in 2016/17. The amounts held in current and interest bearing accounts provide the Gallery with its immediate working capital requirements, but the interest rates applicable to them remained low. However, the majority of the Gallery's reserves are invested in portfolios under management with the Gallery's investment managers, Partners Capital LLP. These investment portfolios were valued in total at £12.1 million. During the year the portfolios experienced a reduction in total value of £1.4 million, compared to the total value of the portfolios as at the end of March 2017. The reduction was primarily as a result of the rationalisation of investments in one of the portfolios to separate out the restricted and unrestricted elements of the portfolio, as well as the portfolio being drawn upon to provide in-year working capital. Notes to the accounts (Notes 8 and 9) include further information about the Gallery's investments, as does the Investment Policy section later in this narrative. Other income increased by 1% compared to 2016/17, from £289,000 up to £293,000.

Effectiveness and efficiency

Buildings and facilities

In the past year, the Gallery has made a number of improvements to the fabric and operation of the buildings. This has been driven in response to visitor feedback as well as in ensuring that our Grade 1 listed buildings are kept in good condition and remain fit for purpose.

The refurbishment and remodelling work proposed in the lead up to and as part of the *Inspiring People* project will encompass a series of upgrades across the whole Gallery, particularly relating to building infrastructure and resilience. It is imperative, however, that we continue to make improvements wherever we can to ensure that the visitor enjoys their experience with us today as much as they do in the future. Improvements to the décor, lighting, accessibility, stonework and sustainability are all planned for the coming year, along with routine maintenance and safety enhancements.

Inspiring People project

In February 2018, the Gallery appointed Jamie Fobert Architects to lead its £35.5m transformation project, *Inspiring People*, following an international selection process. This project will be the Gallery's biggest ever development since the building opened in 1896 and includes creating around 20% more public and gallery spaces, all of which will be refurbished and rehung for the first time, enhancing the main entrance and creating a state-of-the-art Learning Centre.

For the first time in the Gallery's history, there will be a comprehensive re-display of the Collection across all the galleries, accompanied by an extensive programme of activities nationwide.

The East Wing will be returned to public use and its original function, with the introduction of a vertical circulation core for all four levels. The basement café will be extended with an improved kitchen preparatory area.

The Gallery has already embarked on its fundraising and has now secured £21.2m, 60% of its £35.5m fundraising target. With the Heritage Lottery Fund's support of £9.4m, the Gallery aims to reach its target by March 2019 in order to complete the project by late 2022/early 2023.

Staff

Introduction (including Recruitment)

The Gallery's workforce figures for the period ending 31 March 2018 are set against the backdrop of a Change Programme which resulted in a number of employees leaving on Voluntary Exit and Voluntary Redundancy terms. Employee turnover has therefore increased significantly since the last reporting period. During 2017/18 the Gallery had 155 leavers, giving an average turnover for the year of 52%. The most common reason for leaving was the end of a fixed term contract, with 55 leavers (35.5%) out of which 44 (80%) related to the end of fixed term contracts for front of house staff recruited to support the exhibitions programme. 'Other Job' and 'Redundancy' were the next most common reasons for leaving, with 24.5% and 15% respectively. As at the end of March 2018, the Gallery had a headcount of 298 staff compared to 331 at the end of March 2017. The Gallery advertised 61 vacancies for 131 positions, including fixed term Visitor Services staff for exhibitions. The average number of days' sickness per employee was 4.5, a slight increase on last year. Of this 2.5 days related to short term absence. This compares to the public sector average total of 6.3 days per employee per year.

Training

A broad range of induction training was provided to support new staff across all areas of the Gallery. The Gallery also arranged for staff to attend a number of conferences, seminars and specialist training events covering a range of subjects including the future of museums: collections; copyright and design rights policy, rights management, enforcement and the UK's approach post-Brexit; Known Consigner certification; counter terrorism, recognising suspicious behaviour and managing an incident; the fundamentals of CDM2015; and IPAF Genie training. We started the implementation of an e-learning system which will greatly enhance access to training for all staff.

Equality and diversity

The Gallery reviewed and revised its Equality and Diversity Policy during the year, as well as implementing a 'blind' recruitment process, which means that those involved in recruitment decision making do not have access to candidate personal details, including equality monitoring, during the shortlisting stage. We continued to provide mandatory training on equality and diversity with the charity Changing Faces. We hosted 18 student placements and 2 internships across the Gallery. The composition of the Gallery's workforce, as at end of March 2018 was 81% white, 11% black and ethnic minority with 8% opting not to provide this data. The Gallery's gender profile was 33% male and 67% female. The Gallery has a disabled workforce of 2% and 41% of the workforce undertakes part time working.

The Gallery signed up on 18 January 2018 to the Disability Confident scheme; we are currently on the 1st level of Disability Confident Committed, with plans to reach the 3rd level of being a Disability Confident employer by 2019.

The Gallery's current age profile is as follows:

Age	%
16-24	6%
25-34	38%
35-44	23%
45-54	20%
55-64	11%
65+	2%

The make-up of the Gallery's workforce between permanent and temporary staff during the year was as follows, based on average full time equivalents (FTEs) - see Note 5 for more detailed analysis:

			2018			2017
	Permanent staff	Temporary staff	Total	Permanent staff	Temporary staff	Total
Average numbers (FTE)	253	28	281	254	33	287
Cost (£000)	10,932	537	11,469	10,196	1,211	11,407

The split of permanent staff by gender, based on average FTE was as follows:

			2018			2017
	Female FTE	Male FTE	Female FTE	Male FTE	Female FTE	Male FTE
Senior civil servants	-	1	-	1	-	1
All other employees	160	92	166	87		

The Gallery incurred no expenditure on consultants in the year (£4,600 in 2016/17).

During 2017/18, the Gallery received valuable support from volunteers as follows:

Department	Full-time equivalent
Increasing understanding and engagement with the Collection	0.33

The Gallery also provided work experience and internships for 20 students and interns during the year across a range of Gallery departments, equivalent to 1.5 FTE.

Trade union representation

The Trade Union (Facility Time Publication Requirements) Regulations 2017 came into force on 1 April 2017 and applies to all relevant public sector employers with at least one relevant trade union official. Public sector employers employing the full-time equivalent of more than 49 employees for any of the seven months in each relevant period (the 12 month period from 1 April each year), must comply with the regulations by publishing the following information on their websites and in their annual reports, if applicable;

- The number of employees who were relevant union officials during the relevant period.
- The percentage of time spent on facility time during the relevant period.
- The percentage of the employers pay bill spent on facility time, and;
- The number of hours spent by relevant union officials on paid trade union activities as a percentage of total hours.

The figures in relation to the Gallery during the year were as follows:

Relevant union officials

Number of employees who were relevant union officials during the relevant period	Full time equivalent employee number
4	4.00

Percentage of time spent on facility time

What percentage of the relevant union officials working hours was spent on facility time during the relevant period	Number of employees

0 - 1%	2
1-50%	2
51-99%	0
100%	0

Percentage of pay bill spent on facility time

Total cost of facility time	£6,173
Total pay bill cost for 2017-18	£10,404,978
Percentage of the total pay bill spent on facility time	0.059%

Trade Union Activities

Total time spent on paid union duties and activities as a percentage of total paid hours	4.85%
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For the reporting period of 2017/18, the Gallery had 4 active union officials, which represents 1.3% of the average number of employees for the reporting year (313). Between the 4 active representatives 389 hours were undertaken as Facility time at a cost to the Gallery of £6,172.74. This represents 0.059% of the total Gallery paybill for 2017/18, which was £10,404,978.

The Gallery will continue to be supportive of union representation, which helps to ensure employees views are represented across the organisation.

Sustainability report

The Gallery continues to make progress in reducing its environmental impact and has an active Green Group within the staff organisation, whose aim is to highlight and take positive action towards this end.

Whilst significant benefits will come as part of the *Inspiring People* project, incremental improvements are being made on a day-to-day basis. Continued investment in LED lighting systems and low energy fittings, a reduction in waste (particularly paper) generated and recycled, as well as improvements to the Building Management System, which controls the environment within the Gallery space, are amongst a range of activities, some large, some small, that overall will help to reduce our carbon footprint.

Waste and Recycling

First Mile, the Gallery's recycling partner, provided some feedback on the Gallery's performance in 2017, issuing the Gallery a silver standard recycling certificate. Over the calendar year, 43,260kg of paper, glass and metal was recycled – a hit rate of 67% - saving approximately 18,480kg of CO2.

		Unit	2017-18	2016-17
CO2 emissions	Scope 1 (direct)	Kg of CO ₂ e	595,844	662,724
	Scope 2 (indirect)	Kg of CO ₂ e	786,499	750,935
	Scope 3 (business travel)	Kg of CO ₂ e	-	-
	Total emissions	Kg of CO ₂ e	1,382,343	1,413,659
Energy consumption	Electricity	KWh	2,237,168	1,822,437
	Gas	KWh	3,230,037	3,384,373
	Total	KWh	5,467,205	5,206,810
Expenditure	Electricity	£	213,859	265,000
	Gas	£	63,906	79,992
	Business travel	£	10,766	14,759
Waste	Landfill	Tonnes	2.1	7
	Reused/recycled	Tonnes	23.1	25

	Composted	Tonnes	22.5	12.4
	Incinerated with energy recovery	Tonnes	34.6	19.5
	Incinerated without energy recovery	Tonnes	0.0	0.0
	Total waste	Tonnes	82.3	63.9
	Total waste expenditure	£	17,500	21,593
Finite resource consumption	Water consumption	M ³	16,193	15,582
	Water supply cost	£	37,666	36,605

Visitor Services

The Gallery continues to make improvements to the way the Visitor Services team operates on a day-to-day basis and in the development and improvement of ongoing visitor engagement initiatives. The popular free *Portrait of the Day* talks have grown from strength to strength with continued repeat visitors and a growth in visitor numbers attending these talks. More members of the team are volunteering for this initiative which provides Visitor Services Assistants invaluable opportunities to increase their knowledge and understanding of the Collection as well as being a great way of interacting with our visitors. Such direct interaction is one of the things that visitors tell us is an important part of their overall experience when visiting the Gallery.

The Gallery has a Visitor Experience group, which reviews all streams of visitor feedback and identifies all interactions and areas of potential improvements to the visitor experience. This is to ensure that the right skills are demonstrated and that they are being deployed consistently to fully meet our visitors' needs. The Gallery actively encourages visitor feedback to learn about the good and not so good experiences our visitors have and to this end has created many readily accessible channels for that feedback to be given.

During the course of the year, the Gallery recruited a new team of Operations Managers, with two of the successful candidates having been recruited internally from within the Visitor Services team. This reflects strongly on the Gallery's approach to nurturing and promoting in-house talent.

Providing the right level of security for our visitors, staff and Collection is at the heart of our operation. The Gallery's security management team is responsible for an appropriate and proportionate security posture. Working closely with stakeholders and the advisory services of the Metropolitan Police, consideration has been given to the Gallery's iconic status and the fact that its location is in one of the most crowded places in Westminster.

In light of recent local and national incidents and a subsequent review of how the Gallery needs to respond to the nature of the prevailing threats, the Gallery is now implementing a 'concierge' model in partnership with one of its professional security providers to enhance security across all entrance areas.

IT/Comms (CRMTS)

As we rely more and more on internet services and digital communications, the Gallery has taken steps to increase the resilience of its network and internet access. We have moved from having one internet connection passing through one firewall to having a primary and backup internet connection connected to two firewalls. These have been configured to provide high availability with no single point of failure.

This improvement is part of a series of initiatives that are aimed at improving the IT network and its resilience as well as enhancing the visitor's online capability and overall experience.

Marketing campaigns continue to make use of both traditional and new media to expand the reach of the Gallery's messaging. Social channels and digital advertising are central to its strategy, with

notable activity including Facebook live broadcasts, Twitter and YouTube. The progress and success of the Customer Relationship Management and Ticketing System (CRMTS) and the Tessitura CRMTS application for all ticketing, event booking, donations and Development and Membership administration continues to improve the Gallery's processes and service for visitors. The Gallery continues to look at ways of enhancing the skill set and knowledge in these functions in order to further improve the service offered to visitors.

Services for Researchers and Readers, and Freedom of Information Requests

Over the past year, staff at the Heinz Archive and Library have worked to improve the services offered for research and readers. As a consequence, there were nearly 1,200 visitors and over 1,900 enquiries directly to the site whilst averaging over 1,400 visits a month online. In addition to hosting group visits and events onsite, the Gallery actively promotes the Archive and Library to students and independent researchers, such as at the UCL History Day at Senate House, as well as support programming for the *Rebel Women* season and other research and exhibitions. Improvements to these customer focussed activities are being made all the time.

Sixty Freedom of Information requests and five internal review requests were handled. In the meantime, the Gallery has been working in preparation for the implementation of the General Data Protection Regulations and can record that it suffered no personal data loss incidents in 2017/18 requiring a report to the Information Commissioner's Office.

The CRMTS has been successfully established and together with the Contact Centre has improved the Gallery's efficiency, processes and service for visitors. A new CRM Manager post was created and filled and the final phase of the Tessitura CRM implementation, concerning the integration with Retail Management System, was nearing completion.

Governance

Upholding the highest standards of governance through the accountability and transparency of management processes, decision-making and communications continues to be a key aim for the Gallery.

There were some significant changes in the year to the Board of Trustees. Four new Trustees joined the Board, these were Sir Michael Hintze, Bjorn Savén, Sir Peter Stothard and Rachel Wang. All were appointed on four year terms, ending on 2 April 2021. Sir William Proby retired as Chairman of the Board of Trustees with effect from July 2017, when his term as a Trustee expired. David Ross was appointed as the new Chairman of the Board with effect from September 2017. Dame Carol Black's and Dr Rosalind Blakesley's terms as Trustees expired in March 2018. In recognition of the heightened risk to the Gallery's operational finances posed by a succession of deficit budgets in recent years, and in anticipation of the start of the *Inspiring People* project, a new Finance Committee was established. The Committee took over from the current Finance Trustee, Brian Allen. Chaired by Allegra Berman, the Committee also includes David Ross, Kim Evans, Sir Michael Hintze and Bjorn Savén. The Committee will increase scrutiny of the Gallery's finances and its longer term financial wellbeing and sustainability, which will be critical in the lead up to the implementation of the *Inspiring People* project.

During the year there were a number of changes in the executive team. Rob Carr-Archer, Director of Trading retired in June. Tanya Cooper, Curatorial Director, left the Gallery in October, as did Cathy Arnold, the Director of Estates and Operations. The Gallery created a new department, the External Relations Department, which comprised the former Trading Department (Retail, Rights and Images and Publications), the Communications team (press and marketing), Design and Digital Programmes. Ben Weaver was appointed as the new Director of External Relations in June. Ben also joined the Board of the National Portrait Company Limited. Alison Smith joined the Gallery in October as the new Chief Curator. Robert Barr joined the Gallery in October as the new Director of Estates and Operations.

Tenders were also undertaken in the year for the provision of internal audit services to the Gallery and external audit services for the Company. PKF Littlejohn LLP was re-appointed as the Company's external auditors and Mazars LLP was appointed as the Gallery's internal auditors, replacing Moore Stephens with effect from April 2018.

A number of Gallery policies were reviewed and updated in the year, covering loans, the Archive and Library and the fundraising strategy for the next three years. Three policies relating to the Collection were also updated, covering its care, conservation and development. A large number of personnel related policies were also prepared and approved, covering safety and wellbeing, leaving the Gallery, probation, equality and diversity, flexible working, capability and the Disclosure & Barring Service (DBS) check policy.

FINANCIAL REVIEW

Presentation

The Accounts have been prepared in a form directed by the Secretary of State for Digital, 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 Charities Statement of Recommended Practice (FRS 102).

As required by the Statement of Recommended Practice (SORP), the Statement of Financial Activities shows total incoming resources for the year, including income received for capital expenditure and future projects occurring in 2017/18 and beyond. The Statement of Financial Activities apportions the cost of support services (directorate and office services, personnel, finance, IT and communications, facilities management and governance costs) and depreciation across the various headings of cost of generating funds and charitable expenditure.

Financial Performance

2017/18 was both a successful and challenging year for the Gallery. The successful application for support from the Heritage Lottery Fund for the *Inspiring People* project was followed by the receipt of some large, initial donations towards the project. In all, this provided a strong start to the fundraising campaign for the project.

However, there was also a significant reduction in visits to the Trafalgar Square locality, which affected other cultural institutions in the area. As a result of this, the Gallery experienced a 43% drop in its visitor numbers during the year. Research into the reduction concluded that there was no one particular reason for the decline. Concerns over security, the rise in the cost of living, increased travel costs and the transport disruptions effecting a number of key commuter lines and stations into central London may all have played their part. The fall in numbers also affected the number of visitors attending the Gallery's charging exhibition programme, adversely impacting ticketing and retail income associated with the programme. This created pressures on the Gallery's core operational income in the year. In response to these pressures, which had been incurring deficits in recent years, the Gallery undertook a series of restructures in certain of its departments in order to manage down staff numbers, but at the same time to better align the Gallery strategically in preparation for the *Inspiring People* project.

Consolidated Statement of Financial Activities

During the year, the Gallery received £7,134,000 (£6,637,000 in 2016/17) in Grant-in-Aid from DCMS. Grant-in-Aid represented only 33% of total income received in 2017/18, which was the same proportion as in 2016/17.

Overall, total incoming resources were 9% higher than in 2016/17, with self-generated income also being 9% higher. Gross self-generated income represented 67% of total income, which was in the same proportion as in 2016/17. The strongest income earning performance was provided by Donations and legacies, which was 56% higher than that earned in the previous year, as a result of several large donations being received for the *Inspiring People* project. Exhibition admissions and touring income was 13% lower than the previous year due to a shortfall in visitor numbers to the charging exhibitions held in the year. However, Exhibition and programme sponsorship income was 6% higher than that earned in the previous year, which was a good result in a difficult fundraising environment for attracting corporate sponsorship. Income from other trading activities was 16% lower than the previous year. This was nonetheless a good result, considering that it was achieved with 43% fewer general visits to the Gallery and 20% fewer customers to the on-site shops than in 2016/17.

Overall, total resources expended decreased by 3%. Support costs, excluding depreciation, increased by 6% compared to the previous year.

Total staff costs as a proportion of total resources expended increased by 2% to 56% compared to the previous year. Total staff costs increased by 0.5% over the two years, with staff numbers reducing by 2%. The slight increase in staff costs was largely the result of compensation payments made to staff who took voluntary early release or voluntary redundancy as part of the departmental restructures. Wages and salaries reduced by 5% between the years.

The table on page 35 illustrates the 2017/18 Management Report Key Performance Indicators. The KPIs showed a mixed picture for performance over the year. Certain indicators based on attendances showed a decline in the year compared to 2016/17, as a result of the significant fall in visitor numbers, which appeared to have been a phenomenon experienced by other central London national museums and galleries during the year.

Consolidated Balance Sheet

Unrestricted Funds

The brought forward Unrestricted Funds balance of £8 million reduced by £0.6 million during the year, mainly as a result of the depreciation in value of the Gallery's plant and machinery. The closing balance was £7.4 million of which £4.8 million represents capital assets (plant and machinery and furniture and equipment), funded from self-generated income (which are therefore not available to spend). £2.3 million has been designated for the Investment and Contingency Fund and for projects deferred to 2018/19 (held in the Deferred Projects Fund). The General Fund remains at £300,000, being at least three quarters of the stock value held at the Gallery. Going forward, it will be important for the Gallery to maintain a healthy unrestricted reserve to ensure it has sufficient funds to finance its key activities during the lead up to, and implementation of, the *Inspiring People* project.

Restricted Funds

The brought forward Restricted Funds balance of £125.6 million decreased by £2.5 million, primarily as a result of the revaluation of the Gallery's land and buildings and depreciation, which reduced the carrying value by £6.2 million. The closing balance of £123 million consists of £19.5 million representing the Gallery's land and buildings, £57.4 million of revaluation gains on the Gallery's land and buildings, and £31.9 million representing the value of the Gallery's capitalised collections; none of these amounts is therefore available to spend. The balance of £14.3 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 professionally at 31 March 2014. In accordance with Treasury guidance, the Gallery has adopted a policy of using appropriate indices to adjust the carrying values

of its land and buildings, and Office for National Statistics indices to adjust the carrying values of its plant and machinery, in the years when they are not professionally re-valued. Other classes of assets have been valued on an historic cost accounting basis. The net book value of St Martin's Place and Orange Street, including fit-out but excluding plant and machinery, at 31 March 2018 was £77 million.

Payment of Creditors

The Gallery follows the Treasury's guidance on payment of invoices. In 2017/18 the Gallery paid approximately 64% of its invoices within 30 days of the invoice date, compared to 71% in 2016/17. However it paid 93% (91% in 2016/17) of the invoices within 30 days of receipt of the invoice, in accordance with its terms and conditions of purchase.

Investment Policy

Investments are held in accordance with the Trustees Act 2000. A proportion of surplus cash is held on deposit with National Westminster Bank Plc. This provides daily access while earning interest, and also maintains an adequate level of liquidity necessary for the payment of current liabilities.

The majority of the Gallery's cash reserves are held in investment portfolios under management with the Gallery's investment advisors, Partners Capital LLP. In 2009/10 the Gallery established an Investment Committee with the purpose of preparing an investment strategy for the Gallery's and Portrait Fund's cash reserves. The Committee is chaired by a Gallery Trustee – C. Allegra Berman. In this year the Committee included Bjorn Savén. The Committee includes three external members, Anthony Brooke, Jeremy Sillem and Ben Whitmore. The Committee's role is to monitor the advice provided by Partners Capital LLP and the performance of the funds in which they invest on the Gallery's behalf. The Committee also ensures that the funds are invested in compliance with the agreed Investment Strategy.

The Gallery and Portrait Fund's Investment Strategy is based on a consideration of the risk, return and cash flow requirements arising from each reserve fund. The strategy is implemented through investment in two portfolios managed by Partners Capital LLP. The market value of the Gallery's investments was £12.1 million, of which £9.6 million related to the Portrait Fund.

Investment levels and reserves are reviewed frequently and when necessary investments are sold to realise gains and make cash available. During the year, the Committee reviewed the investment objectives of each portfolio in light of the volatility in the investment markets, to ensure that they remained valid and achievable, in the light of the risk appetite set for each portfolio.

The investment objectives of each reserve, in terms of the general objective of its portfolio of funds and the performance objective of the portfolio, are as follows:

Fund	Portfolio objective	Performance objective
Portrait Fund Reserve:	To assist the Gallery to acquire important portraits for the Collection and to cover the cost of related research, conservation, display and interpretation.	The chosen investment portfolio is designed by Partners Capital to target 5.5% to 6% nominal returns, based on a target return of RPI +2% (after assumed long term inflation of 2% to 2.5%).
Long term:	Long term total return, looking for modest capital appreciation. Investment timeframe of up to 5 years.	
Short term:	Preservation of capital the highest priority. Investment timeframe of 12 months.	

Investment and Contingency Fund Reserve	A designation of surpluses to be invested in projects in accordance with the reserves policy. Preservation of capital the highest priority. Investment timeframe of up to 12 months.	The chosen investment portfolio is designed by Partners Capital to target 2.5% to 3% nominal returns, based on a target return of RPI (after assumed long term inflation of 2% to 2.5%).
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Fund performance is measured against agreed benchmarks, and an asset allocation profile is agreed for each fund. The investment and performance objectives are reviewed annually to try and ensure that they are achievable within prevailing and potential future market conditions, given the Gallery's and Portrait Fund's needs for liquidity and appetite for risk. Portfolio rebalancing normally occurs at each Investment Committee meeting (usually three times a year), but may be taken on a more frequent basis, where required, in response to market conditions. There is no leverage (borrowing to invest) at the portfolio level. Funds may not invest in illiquid assets (defined as assets that cannot be liquidated for cash within 18 months under normal redemption terms).

Where practicable, investments are made in sterling-denominated securities or in collective investment funds that have a sterling-hedged share class to minimise exposure to non-sterling currencies. However, the investment portfolios include investments in overseas assets, so some non-sterling currency exposure may remain, particularly where exposure is to emerging market currencies where the cost of currency hedging may be prohibitive.

By the end of the year, the Portrait Fund portfolio stood at £9.6 million. During the year the Portrait Fund portfolio appreciated in value by £381,000 (4%), net of management fees, but fell short of the return target of RPI + 2%. During the 2017 calendar year, the portfolio was ahead of its benchmark by around 0.6%, mainly due to the performance of the Masterportfolio (the portfolio's multi-asset investment vehicle). By the end of the year, the Investment and Contingency Fund portfolio stood at £2.6 million. During the year, £1.2 million was withdrawn from the portfolio as part of a process to separate the elements in the portfolio that related to restricted grants and donations funds, to better manage the Gallery's restricted and unrestricted reserves, by providing greater visibility of their balances. A further £540,000 was drawn down from the portfolio for in-year working capital. Taking into account these movements, the value of the portfolio appreciated slightly during the 2017 calendar year by 0.6%, behind its target return of RPI, but ahead of its benchmark of LIBOR, which returned 0.4% in the same period.

Both portfolios experienced a difficult year as a result of turbulence on world markets, which affected equities in particular and contributed to underperformance against their return targets for the year.

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. On average, around 35-40% 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 the prevailing economic climate. The Gallery has no general endowment and only a modest endowment for the support of the acquisition of major portraits (see below).

The Reserves Policy was reviewed in the year. The reduction in the level of the Gallery's unrestricted reserves in recent years prompted the Trustees to reconsider the policy to ensure that the Gallery had adequate levels of unrestricted reserves to fund itself in the future. The amended policy requires the Gallery to build sufficient reserves to fund itself for four months, net of grant-in-aid receipts. On this basis, the Gallery would require reserves of around £3.8 – £4 million. The Gallery is budgeting to fulfil this minimum requirement in 2018/19.

These reserves are held across a number of unrestricted funds, which include the Investment and Contingency fund, the General Fund and the Deferred Projects Fund.

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 £300,000 in the General Reserve equates in total to at least three-quarters of the average stock levels held at the Gallery.

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

- enables the objectives of the Gallery's Corporate Plans to be achieved, in particular those which increase future income or the efficiency of operations;
- acts as bridging to future increases in recurrent income; and
- covers budget deficits.

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 balance of £254,000 is available to spend in 2018/19.

The Portrait Fund is a restricted fund for the purchase of acquisitions and the development of the Collection. The funds in the Portrait Fund are treated as restricted funds as they have generally been provided for the specific purpose of developing the Collection.

The level of unrestricted funds is reviewed by the Finance Committee on a monthly basis and by the Board of Trustees four times a year. The reserves policy is reviewed by the Board of Trustees once a year.

Related Parties

The Gallery's sponsor, the Department for Digital, 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 23.

REMUNERATION REPORT

The following sections provide details of the remuneration and pension interests of the Gallery's most senior management, consisting of the Director, Dr Nicholas Cullinan, and the Deputy Director, Pim Baxter.

Service Contracts

Appointments of the Gallery's Director and Deputy Director are made on merit and on the basis of fair and open competition.

The Director has a permanent contract of employment, effective from April 2015, with a six month notice period and its terms are agreed with the Department for Digital, Culture, Media and Sport. The Director's contract is open ended. Early termination, other than for misconduct, would result in the Director receiving compensation as set out in the Civil Service Compensation Scheme.

The Deputy Director holds an appointment which is also open ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

The Gallery generally appoints posts on a two year fixed term basis, except for those posts that are regarded as essential to the smooth running of the Gallery, and these are appointed on a permanent basis. Notice periods are between one and three months depending on the level of the post and

length of service. Early termination other than for misconduct may 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 the Deputy Director during the year was as follows – figures in the table are audited information:

Name	Salary £000		Bonus payments £000		Benefits in kind (to nearest £100)		Pension benefits (to nearest £1,000)		Total £000	
	2017-18	2016-17	2017-18	2016-17	2017-18	2016-17	2017-18	2016-17	2017-18	2016-17
Nicholas Cullinan <i>Director</i>	100-105	95-100	5-10	-	-	-	40,000	39,000	145-150	135-140
Pim Baxter <i>Deputy Director</i>	85-90	80-85	Nil	Nil	-	-	6,000	20,000	90-95	100-105
			2017-18				2016-17			
Band of highest paid director's total remuneration (£000)	105-110				95-100					
Median Total Remuneration (£)	23,581				21,500					
Ratio	4.6				4.5					

Salary

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

The Remuneration Committee advises the Trustees on the performance and remuneration of the Director. The Committee is chaired by the Chairman of the Audit and Risk Committee and is composed of the members of the Audit and Risk Committee (see page 33) and the Chairman of the Trustees. 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 10% of his annual salary, subject to performance against the agreed objectives for that period. An element of the bonus up to a value of 1.5% of his annual salary can be consolidated, although this may vary in line with guidance issued by HM Treasury from time to time.

The remuneration of the Director, Dr Nicholas Cullinan, was £101,500 for 2017/18. During the year, Dr Cullinan was awarded a bonus of £8,000 (8%), relating to his performance in 2016/17. £1,500 of this bonus was consolidated into his annual salary for 2017/18, raising it to £101,500. This information was not available for inclusion in the 2016/17 annual report and accounts as the bonus had not been agreed in time to be included in the accounts for that year.

The remuneration of the Deputy Director, Pim Baxter, is set out in her contract and subject to the annual pay review framework for all staff. Her salary does not include any performance related pay or bonuses.

Reporting bodies are required to disclose the relationship between the remuneration of the highest-paid director in their organisation and the median remuneration of the organisation's workforce. The banded, annualised remuneration of the highest-paid director in the Gallery in the financial year 2017/18 was £105,000 -110,000. This was 4.6 times (2016/17, 4.5 times) the median remuneration of the workforce, which was £23,581 (2016/17, £21,500).

In 2017/18, no employee received remuneration in excess of the highest-paid director, (likewise for 2016/17). The annualised remuneration ranged from £21,000 to £101,500 (2016/17, £17,000 to £100,000).

Total remuneration includes salary, non-consolidated performance-related pay (where it applies) and benefits in kind. It does not include severance payments, employer pension contributions and the cash equivalent transfer value of pensions (CETV).

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 2017/18 (none also in 2016/17).

Trustees neither received nor waived any emoluments during the year (none also in 2016/17). Expenses reimbursed or paid on behalf of one Trustee amounted to £293, relating to travel and subsistence charges (in 2016/17, £1,393 for travel and subsistence for two Trustees).

Audited pension benefits

Name	Real increase in pension as at 31/3/18 and related lump sum £000	Total accrued pension at age 60 at 31/3/18 and related lump sum £000	CETV at 31/3/18 £000	CETV at 31/3/17 £000	Real increase in CETV £000	Employer contribution to partnership pension account Nearest £100
Nicholas Cullinan <i>Director</i>	0-2.5	5-10	58	37	12	-
Pim Baxter <i>Deputy Director</i>	0-2.5 Plus lump sum of 2.5-5	20-25 Plus lump sum of 65-70	472	456	5	-

The value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) plus (the real increase in any lump sum) less (the contributions made by the individual). The real increases exclude increases due to inflation or any increase or decrease due to a transfer of pension rights.

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

These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under **classic**, **premium**, **classic plus**, **nuvos** and **alpha** are increased annually in line with Pensions Increase legislation. Existing members of the PCSPS who were within 10 years of their normal pension age on 1 April 2012 remained in the PCSPS after 1 April 2015. Those who were between 10 years and 13 years and 5 months from their normal pension age on 1 April 2012 will switch into **alpha** sometime between 1 June 2015 and 1 February 2022. All members who switch to **alpha** have their PCSPS benefits 'banked', with those with earlier benefits in one of the final salary sections of the PCSPS having those benefits based on their final salary when they leave **alpha**. (The pension figures quoted for officials show pension earned in PCSPS or **alpha** – as appropriate. Where the official has benefits in both the PCSPS and **alpha** the figure quoted is the combined value of their benefits in the two schemes). Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (**partnership** pension account).

Employee contributions are salary-related and range between 4.6% and 8.05% for members of **classic**, **premium**, **classic plus**, **nuvos** and **alpha**. Benefits in **classic** accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For **premium**, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike **classic**, there is no automatic lump sum. **classic plus** is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per **classic** and benefits for service from October 2002 worked out as 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 Pensions Increase legislation. Benefits in **alpha** build up in a similar way to **nuvos**, except that the accrual rate is 2.32%. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

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

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

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

Cash Equivalent Transfer Values

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

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

Real increase in CETV

This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation, 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.

Reporting of Civil Service and other compensation schemes - exit packages

Following consultation between HM Treasury and Government Departments the Gallery must now provide summary data on its use of exit packages, in addition to any details it might have disclosed about the individual packages for those senior staff covered by the Remuneration Report. It must show the number of exit packages according to cost band, analysed by the number of compulsory redundancies and the number of other departures agreed. This information relating to exit packages agreed in 2017/18 - and the prior year - is provided in the table below, and is also audited information.

Exit package cost band	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band	
	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17
<£10,000 – 50,000	7	3	25	-	32	3
£50,000 - 100,000	-	-	-	-	-	-
£100,000 - 150,000	-	-	-	1	-	1
Total number of exit packages	7	3	25	1	32	4
			Total cost in £		£562,118	£132,981

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Exit costs are accounted for in full in the year of departure. Where the Gallery has agreed early retirements, the additional costs are met by the Gallery and not by the Civil Service pension scheme. Ill-health retirement costs are met by the pension scheme and are not included in the table.

Dr Nicholas Cullinan
Accounting Officer
5 July 2018

David Ross
Chairman of Trustees
5 July 2018

THE BOARD OF TRUSTEES AND PROFESSIONAL ADVISERS

Between 1 April 2017 and 5 July 2018, the date on which the accounts were signed, the Trustees were:

Dr Brian Allen §
Ms C Allegra Berman
Professor Dame Carol Black DBE* (to 7 March 2018)
Dr Rosalind P Blakesley (to 7 March 2018)
Rob Dickins CBE
Kim Evans OBE* **
Sir Michael Hintze (from 2 April 2017)
Dr Joanna Kennedy OBE FREng FICE **
Sir William Proby Bt CBE DL (Chairman to 5 July 2017)
Dr Andrew Roberts
David Ross * # (Chairman from 7 September 2017)
Bjorn Savén (from 2 April 2017)
Sir Peter Stothard (from 2 April 2017)
Rachel Wang (from 2 April 2017)

ex officio

President of the Royal Academy of Arts – Christopher Le Brun
Lord President of the Council – The Rt Hon David Lidington MP (to 11 June 2017)
Lord President of the Council – The Rt Hon Andrea Leadsom MP (from 11 June 2017)

* Audit and Risk Committee members. The Chair of the Audit and Compliance Committee was Mr David Ross up until 22 June 2017, following which his term as a Trustee expired. The Chair of the Committee was taken over by Dame Carol Black and Kim Evans OBE for the remainder of the year. Part of the new governance measures introduced by Trustees in the year was to rename the Committee the Audit and Risk Committee, and this title was used from February 2018 onwards. Mr Stephen Souchon is co-opted on to the Audit and Risk Committee to provide specialist accountancy knowledge (for a period of two years from May 2017). Mr Neil Spence was appointed as an additional co-opted, independent member of the Committee to increase its knowledge of public sector and charity finances. He was reappointed for 2 years also from June 2017. A detailed record of the Committee's membership is included in the Appendix to the Governance Statement on pages 44 and 45.

Details of the membership of the Finance Committee and the Investment Committee are included in the Appendix to the Governance Statement.

Development Council members. The Development Council was reformatted in April 2011 and David Ross is its Chair. Members meet individually with the Director and Deputy Director throughout the year, rather than attending formal Board meetings.

§ Finance Trustee (to 19 February 2018)

** *Inspiring People* Project Board. Joanna Kennedy is Chair of the *Inspiring People* Project Board and Kim Evans a member of the Board.

EXTERNAL ADVISERS

Bankers: National Westminster Bank
Strand Branch
PO Box 414
38 Strand
London WC2H 5JB

External Auditors: Comptroller & Auditor General
National Audit Office
157-197 Buckingham Palace Road
London SW1W 9SP

PKF Littlejohn LLP
Chartered Accountants
1 Westferry Circus
Canary Wharf
London E14 4HD

Solicitors: Farrer & Co LLP
66 Lincoln's Inn Fields
London WC2A 3LH

Michelmores LLP
Woodwater House
Pynes Hill
Exeter
Devon EX2 5WR

Under statute, the Comptroller & Auditor General is the auditor of the Gallery's accounts for the year 2017/18. The audit fee in respect of this work was £33,500 (£33,500 in 2016/17). The National Audit Office did not provide any non-audit services. PKF Littlejohn LLP is the auditor for the National Portrait Gallery Company Limited and the audit fee in respect of their work was £9,750 (£9,615 in 2016/17).

Internal Auditors: Moore Stephens LLP
150 Aldersgate Street
London EC1A 4AB

Mazars LLP
Tower Bridge House
St Katharine's Way
London
E1W 1DD
United Kingdom

Investment Advisors: Partners Capital LLP
5th Floor
5 Young Street
London W8 5EH

Dr Nicholas Cullinan
Accounting Officer
5 July 2018

David Ross
Chairman of Trustees
5 July 2018

PERFORMANCE AGAINST MANAGEMENT AGREEMENT INDICATORS

The Gallery's Management Agreement with the Department for Digital, Culture, Media and Sport, signed in March 2017 contains 12 separate performance indicators. The table below includes the 12 indicators stipulated in the Management Agreement. A number of the indicators stipulated in the Management Agreement were new and the statistics had not been collected in years prior to 2014/15. These indicators 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	2011/12 Actual	2012/13 Actual	2013/14 Actual	2014/15 Actual	2015/16 Actual	2016/17 Actual	2017/18 Actual
Total number of visits to the Gallery excluding virtual visits (000s)	1	2,048	2,054	1,988	2,082	2,103	1,879	1,079
Number of unique users visiting the website (000s)		‡3,214	3,626	4,103	4,213	4,997	4,746	3,846
Number of visits to the Gallery by children aged under 16 (000s)		134	161	145	159	153	156	105
Number of overseas visits (000s)		821	923	802	783	854	834	453
Number of facilitated and self-directed visits to the Gallery by visitors aged under 18 in formal education (000s)	2				45	41	42	34
Number of instances of visitors under 18 participating in on-site organised educational sessions (000s)	2				3	3	4	3
% of visitors who would recommend a visit	3	97	97	97 (Restated)	96	95	94	94
Total amount of charitable giving (£000s)	4			5,140	8,095	7,919 (re-stated)	5,291	7,708
Ratio of charitable giving to grant-in-aid				0.7:1	1.2:1	1.2:1	0.8:1	1.1:1
Net profit from trading company (£000)		765	686	715	1,045	1,226	1,061	764
Income from Exhibition Admissions and touring (£000)		1,955	2,640	2,230	2,147	2,884	3,023	2,628
Number of UK loan venues		118	118	142	144	95	92	113

‡ The method of reporting of website visits was changed to one based on Google Analytics, which gives a more accurate picture of web usage. The figures for 2011/12 were re-stated to reflect web visit figures based on Google Analytics, to provide a comparator to the statistics for future years.

Note 1: Visits to St Martin's Place only (excludes visits to national partner sites).

Note 2: These are new performance indicators introduced with the 2014 Management Agreement and before 2014/15 statistics relating to under 18 visits were not compiled, hence at this point there is no prior year comparator.

Note 3: Equates to visitors 'very likely' and 'fairly likely' to recommend a visit to the Gallery.

Note 4: Charitable giving includes gross income from activities which involve seeking financial support from, e.g. sponsors, private benefactors and charitable trusts. This includes Donations and legacies income (less any Lottery funding) and Exhibition and programme sponsorship income. The 2015/16 total has been re-stated to reflect more up-to-date information.

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 as directed by the Secretary of State for Digital, Culture, Media and Sport in an Accounts Direction*. The Accounts are prepared on an accruals basis and must give 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 comply with the requirements of the *Government Financial Reporting Manual* and in particular to:

- observe the Accounts Direction issued by the Secretary of State, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the financial statements; and
- prepare the financial statements on the going concern basis.

The Accounting Officer for the Department for Digital, Culture, Media and Sport has designated the Director as Accounting Officer for the National Portrait Gallery. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the National Portrait Gallery's assets, are set out in *Managing Public Money* published by the HM Treasury.

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 of which the entity's auditors are unaware, and the Accounting Officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the entity's auditors are aware of that information. Furthermore, the annual report and accounts as a whole is fair, balanced and understandable and the Accounting Officer acknowledges his personal responsibility for the annual report and accounts and the judgments required for determining that it is fair, balanced and understandable.

Dr Nicholas Cullinan
Accounting Officer
5 July 2018

David Ross
Chairman of Trustees
5 July 2018

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

GOVERNANCE STATEMENT

The Accounting Officer and the Chairman of Trustees (as representative of the Board of Trustees), 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 Gallery assets. The purpose of the Governance Statement is to show how these responsibilities have been carried out in the course of the year.

The National Portrait Gallery's governance framework

The National Portrait Gallery is a Non-Departmental Public Body supported by the Department for Digital, Culture, Media and Sport (DCMS). The Museums and Galleries Act 1992 established the corporate status of the Board of Trustees of the National Portrait Gallery. The Gallery has a Management Agreement with the DCMS which defines the Gallery's status as a Non-Departmental Public Body and outlines the processes and procedures the DCMS expect the Gallery to observe when managing public funds. Funding from Government is provided in the form of grant-in-aid and how the Gallery deploys this funding is laid out in the Management Agreement. The Management Agreement includes twelve key performance indicators upon which the Gallery is required to report, and the results are included on pages 35 and 36 of this report, together with the results from prior years where these are possible to provide.

The Board consists 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 Digital, 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, as prepared by the Director and the Senior Management Team, and in ensuring that the Gallery fulfils its statutory obligations. Trustees are expected to provide critical commentary on the current activities of the Gallery and to determine its overall direction for the future. There is a committee of the Board which covers Audit and Risk, a recently created Finance Committee (see below) and another which advises on senior staff remuneration. There is also a Project Board for *Inspiring People*, chaired by a member of the Trustees' Board. The Gallery also has a Development Council to support fundraising initiatives, and an Investment Committee with a mix of Trustees and independent members to manage the investment of its cash reserves. There were some significant changes in the membership of the Board during the year and these are noted on page 33 of the report narrative.

The Director of the Gallery is Dr Nicholas Cullinan. He took up the post of Director on 14 April 2015. 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 finances, business and financial planning, its internal control and risk management processes and its external representation. As Accounting Officer, the Director is personally responsible, along with the Chairman of Trustees, for safeguarding the public funds and Gallery assets, in accordance with the responsibilities assigned to him in *Managing Public Money* and ensuring compliance with the requirements of the Gallery's Management Agreement.

The Audit and Compliance Committee, renamed in the year as the Audit and Risk Committee, is responsible for independent oversight of the Gallery's affairs. It receives reports annually from the internal and external auditors so that members of the Committee can assure themselves that the Gallery's affairs are managed economically, efficiently and within the powers delegated to it. The Committee also assesses and advises on the systems by which the Gallery manages and mitigates risk throughout the organisation. The Chair of the Committee advises the Accounting Officer and the Board of Trustees in the event of any unexpected threat to the Gallery's resources, operations or reputation. The Audit and Risk Committee generally meets ahead of the plenary Board meeting so that Board level matters can be considered and discussed at the Committee meetings and then communicated to the Board.

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 Audit and Risk

Committee, and is composed of the other Trustee members of the Audit and Risk Committee and the Chairman of Trustees.

The Investment Committee is appointed by the Board of Trustees to monitor the funds invested by the appointed investment consultants and to ensure that the funds are invested in compliance with the agreed Investment Strategy. The Committee is chaired by a Trustee but also includes independent co-opted members who have particular skills in investment management.

The Development Council consists of independent members that have strengths in different industries and social networks, and who act as senior volunteer advisers to the Gallery's Development department on priority fundraising projects. They act as high profile advocates of the Gallery's work in both a professional and private capacity.

The responsibility for financial oversight rests with the whole Board of Trustees. Until this year, the Board invited one of its members to act as Finance Trustee and to report to the Board on budgetary matters and financial planning. However, during the year the Board decided instead to create a Finance Committee to take on the responsibility of the oversight of the Gallery's finances from the Finance Trustee. This was in response to a steady deterioration in the level of the Gallery's free reserves caused by recurring deficits in the Gallery's core operational budgets. The introduction of the Committee, which meets monthly, has increased scrutiny of the Gallery's financial performance. The Finance Committee consists of five Trustees, including the Chairman of the Board and the Chairman of the Investment Committee, who also chairs the Finance Committee. The Finance Committee's role is focused on the financial health of the Gallery, and is distinct from the work undertaken by the Audit and Risk Committee. In tandem with the creation of the Finance Committee, the Board also revised its Reserves Policy to provide the Gallery with adequate cash reserves to fund itself during times of budgetary stress in the future. There has also been a re-organisation of the Gallery's restricted and unrestricted cash reserves to improve their management. Financial reporting systems have been improved and an upgrade of the Gallery's accounting system is planned for 2018/19 to improve its management reporting capability.

The Gallery also established a Project Board to oversee the implementation of the *Inspiring People* project. It is chaired by a Trustee and consists of a further Trustee, the Director and Deputy Director, as well as key senior Gallery staff and external advisers. The Project Board meets monthly and reports to the Board of Trustees. Its operations are also reviewed by the Audit & Risk Committee and Finance Committee.

There is a Register of Trustees' Interests, disclosing details of company directorships and other significant interests held by them, close family and persons living in the same household, which is open to the public, and is available in The Heinz Archive and Library.

All Trustees must declare publicly any personal or business interests that might be perceived to conflict with their public duties. Common law requires that members of public bodies should not participate in the discussion or determination of matters during meetings in which they have a direct pecuniary interest. Trustees are prompted at the start of meetings to declare if they, close family members or persons living in the Trustee's household have an interest, pecuniary or other, in a matter being considered. The Board or Committee will then decide whether it is appropriate for the Trustee to participate in or have information concerning the matter being considered, or whether the Trustee should withdraw from the meeting. Detailed guidance about how Trustees should handle conflicts of interest is contained in the Trustees' Handbook, which is issued to each Trustee upon appointment.

Statistics reporting the attendance of individual Trustees at Board and Sub-Committee meetings are disclosed in the Appendix to the Governance Statement on pages 44 and 45. On average, over the year 2017/18, each Board meeting was attended by 89% of the Trustees, excluding the ex-officio Trustees.

The Director leads the Management Team, which carries responsibility for overseeing and shaping the management of the Gallery across all aspects of its work, including the implementation of the Corporate Plan and the individual departmental business plans that underpin it. The Management

Team meets on a fortnightly cycle but the membership of the meetings is different. Firstly, there is the Senior Management Team (SMT), which consists of the Heads of the Gallery's departments, Curators and the heads of certain key teams. The SMT takes responsibility for evaluating current work and initiatives, as well as reviewing policies. SMT also holds an annual review day in order to discuss key issues facing the Gallery, ways of improving working practices and responses to Government cultural policy. Secondly there is the Directors' Group meeting, which supports the SMT and consists of the Heads of Departments. In prior years it was referred to as the Planning Team. It provides a forum for key decision making for strategic, financial and risk related issues. The SMT and Directors' Group meetings are held monthly on an alternate, fortnightly cycle. The Directors join the Trustees for an annual Trustees' Strategic Review Day.

In 2006 the Gallery created the Portrait Fund to support the acquisition and conservation of important portraits for the Collection. The Portrait Fund was established under a Declaration of Trust with the purpose of creating a restricted fund to support the purchase of acquisitions. The Fund has its own Board of Trustees, the majority of whom are also Gallery Trustees. The results of the Fund are consolidated into the Gallery's annual accounts.

The Gallery has a wholly owned subsidiary company, the National Portrait Gallery Company Limited, the "Company". The Company has a Board of five Directors, including one Trustee, three Gallery senior executives (one of which is the Director of the Gallery), and an independent non-executive director. The Board of Directors meets three times a year. As well as the Directors of the Company, the Audit and Risk Committee reviews the performance of the Company, its annual report and accounts and the Company external auditors' audit strategy and Management Letter. To date the external auditors have not identified any significant control weaknesses in the processes and controls operated by the Company.

The Board of Trustees' performance in 2017/18

The Board has a governance review session every year, and every other year all trustees complete a detailed questionnaire to assess the Board's effectiveness. This is followed up by a review by the Chairman of Trustees of the effectiveness of individual Trustees, through a series of one-to-one meetings between the Chairman and individual Trustees. The Board undertook a review in September 2017 as well as undertaking a skills audit. The review indicated that the Board believed its composition to be appropriate, that the Board operated effectively, that it understood and had sufficient time to consider the Gallery's strategic direction. Meetings of the Board were considered to be effective and communication with and from the executive team was good. The performance of the Board's sub-committees were also considered to be effective.

Committee reports to the Board

The minutes of the Finance Committee, the Audit and Risk Committee and the Investment Committee are circulated to all Trustees and at each Board meeting the Chairs of the committees brief the Board about the business which was discussed at their Committee meetings and the key outcomes arising. Each year, the Chair of the Audit and Risk Committee submits an annual report on the effectiveness of the Gallery's risk management processes. As well as the annual report from the Chair of the Audit and Risk Committee, the Accounting Officer and Board rely on assurances from several other sources, including the Annual Internal Audit Report to the Audit and Risk Committee from the Head of Internal Audit (HIA), and Budget Holder, Budget Supervisor and Budget Manager end-of-year assurance statements. Together these reports and statements provide assurances confirming that a sound system of internal control has been maintained throughout the year.

The Chair of the Audit and Risk Committee's report details the actions which have been taken by the Gallery during the year to mitigate risk and to improve and strengthen internal control, during 2017/18. The Gallery continued to progress its *Inspiring People* project. In June 2017 the Gallery was informed that its bid to the Heritage Lottery Fund (HLF) for grant support towards the project was successful and it received a first stage award of £9.4 million towards the project. During the year the *Inspiring People* fundraising campaign secured a number of other significant pledges in addition to the HLF award. The project team and the architects were also appointed in the year. Work has now begun on a detailed, stage two submission to the HLF which will be made in the spring of 2019. A number of Gallery policies were reviewed and updated in the year, covering loans, the Archive and Library and

the fundraising strategy for the next three years. Three policies relating to the Collection were also updated as too were several personnel related policies.

The Chair of Audit and Risk Committee's report also outlines the key risks facing the Gallery in the near future. These are highlighted in the risk assessment later in the Statement. Any key issues arising from the previous year's audit of the Gallery's consolidated accounts and the Company's accounts are covered in the report, as well as progress with the implementation of audit recommendations made by the external auditors, which are also outlined in the report. The report concluded that the Audit and Risk Committee considered that the risk management processes operated by management in the year had been sound. The Committee considered the key areas of risk identified for the forthcoming year were appropriate.

The HIA's report provided the Accounting Officer with reasonable assurance on the effectiveness of the Gallery's risk management, control and governance processes reviewed as part of the 2017/18 internal audit plan. The audit work consisted of four audits, which included a review of exhibitions, project management, risk management and key financial controls. Two further audits on publications and cyber security were postponed, the latter to enable the Gallery to concentrate on compliance with the General Data Protection Regulations. Overall, the HIA considered that "there is an adequate and effective system of governance, risk management and internal control to address the risk that management's objectives are not fully achieved". The report also noted that the Public Sector Internal Audit Standards (PSIAS) require the Head of Internal Audit "to highlight any significant issues identified during the year and for management to include them in the Governance Statement. There are no significant findings that we consider warrant reference in the Governance Statement".

Progress with the implementation of internal audit recommendations is reviewed by Directors' Group on a quarterly basis and by the Audit and Risk Committee at each of its meetings.

The regular reports from the Chair of the Investment Committee update the Board on performance of the Gallery's investment portfolios, and the effectiveness of the investment advisors managing the portfolios. The Investment Committee plays a significant role in the management of investment risk. Key to this is ensuring that the investment advisors adhere to the Investment Strategy. The Investment Strategy is reviewed regularly by the Committee and also by the Board. The Strategy determines the objectives of the Gallery's investment portfolios, taking into account the differing requirements with regard to risk and liquidity of the various reserves held by the Gallery. The Strategy also includes any restrictions the Trustees have stipulated in how the reserves are to be invested and how performance should be measured. Asset allocations proposed by the investment advisors are reviewed against the objectives of the Investment Strategy to ensure that what is proposed is appropriate.

The reports from the Chair of the Investment Committee cover the performance of the investment portfolios during the quarter, the changes made to asset allocations and the consequences for the portfolios as a result in terms of risk. To date the Chair of the Investment Committee has reported to Trustees that the Committee continued to work well and that she believed that the independent members provided balanced, thoughtful advice and constructive challenge to the investment proposals put forward by the investment advisors. More detail about the work of the Committee and the performance of the portfolios in the year is contained on pages 26 to 28 and the balances are disclosed in Note 8 to the accounts.

Compliance with the *Corporate Governance Code*, and other good practice

The Board complies with the principles laid out in *Corporate governance in central government departments*, "the Code". There are certain principles in the Code which are not applicable to the Gallery's Board and these relate in the main to central government boards' roles relating to government policy making and the powers of ministers. Other elements which are not applicable include certain elements in the Code dealing with board composition and the board's relationship with its Arms Length Bodies.

The Gallery seeks to uphold the highest standards of governance through the accountability and transparency of its management processes, decision-making and communications. Board of Trustee

meeting minutes can be viewed on the Gallery's website at <http://www.npg.org.uk/about/corporate/trustees-and-trustees-meetings/>.

Assurances and other data provided to the Board

The Board receives information from a wide variety of sources which underpins its assessment of the effectiveness and strength of governance and internal control. Besides its own review of effectiveness and the reports from the Chair of Audit and Risk Committee, the Board receives and places reliance on reports from both internal and external audit.

A key role for the Board is to review and approve the Gallery's Corporate Plan and associated budget. The objectives for the Gallery in 2017/18, and the strategies it will employ to achieve the objectives, are laid out in the 2017/27 Corporate Plan, which can be viewed on the Gallery's website at <http://www.npg.org.uk/assets/files/pdf/corporate/busplan20162019.pdf>. As well as approving the Plan, the Board oversees the progress that the Director and the senior management team make in implementing the Plan, providing commentary and guidance on their work as necessary. In the main, this is facilitated by the Board reviewing a set of financial and non-financial performance indicators (KPIs) on a quarterly basis. Pages 35 and 36 include a table of performance indicators comparing the results to those achieved in previous years. The 2017/18 KPIs showed a mixed picture for performance over the year with the decline in visitor numbers affecting a number of them.

The Board also receives the minutes of the Finance Committee meetings, as well as quarterly financial reports (in the form of summary management accounts including an explanatory narrative) and the financial and non-financial key performance indicators, to provide Trustees with a broad picture of performance in the quarter against the budget set for the year. The data in the financial reports is reconciled to the year-end accounts which are independently audited. The Board and the Audit and Risk Committee review on a quarterly basis the Corporate Risk Register, which contains the key risks facing the Gallery. The Audit and Risk Committee also review certain of the Departmental Risk Registers which underpin the Corporate Risk Register to see how the risks in the Departmental Registers feed up into the Corporate Risk Register. The Audit and Risk Committee also discusses, on a regular basis, internal control and risk management in areas critical to the Gallery's business with the relevant Heads of Department, to ensure that risks are effectively managed in these areas, and that the Corporate Risk Register reflects the profile of risk covered in the discussions with the Head of Department. Trustees receive a weekly summary of the Gallery's coverage in the Press, including high-lights, which assist in providing Trustees with an external view of the Gallery's performance.

As a matter of course, the Board reviews and approves key Gallery policies, and revisions to them. It also receives annual reports from senior management relating to important areas of compliance and how the Gallery has conducted itself in these areas, for instance in Health and Safety and Freedom of Information. Senior management also provides annual reports covering important Gallery programmes, like the Exhibitions Programme and the work undertaken as part of its National Programme with regional bodies and other external partners. The *Inspiring People* Project Board reports the findings from its monthly meetings to the Trustees' Board.

These reports and submissions provide the Board with a broad picture of how the Gallery is performing.

At the year end, budget managers provide the Accounting Officer with an annual assurance statement confirming that they have complied with the National Portrait Gallery's published policies and with the financial and risk management procedures. In rare circumstances budget managers have qualified their statements and where this is considered material, the statement is brought to the attention of the Audit and Risk Committee. No material qualifications were brought to the attention of the Accounting Officer or the Audit and Risk Committee in 2017/18.

As well as these formal channels of reporting to the Board, the Gallery also has whistleblowing procedures through which staff can alert senior management, members of the Board and DCMS to improper behaviour. The Whistleblowing Procedures are available on the Gallery's shared directory and the contact details are kept up-to-date.

The Board's review of risk management during the year and into the future

Each year the Trustees review the Gallery's risk appetite, which sets the level of risk the Gallery is willing to accept across different areas of its programmes and operations. They also review the criteria for evaluating risk. Both these factors are critical in ensuring that risk is evaluated in a consistent manner and that the Gallery's response to the risk is appropriate and proportionate. How the Gallery's risk profile is reviewed and monitored has been explained already. Internal Audit review the Gallery's risk management processes on a regular basis and report their findings to the Accounting Officer and Audit and Risk Committee. The last review was in January 2018 and it concluded that generally there was a good control framework in place. The Chair of the Audit and Risk Committee, in an annual report on risk to the Board, explains the Gallery's response to risk during the year, and outlines the key risks facing the Gallery into the future.

As at 31 March 2018 the key risks facing the Gallery in the forthcoming year are mainly financial and reputational. The most serious risks are in maintaining levels of self-generated income and keeping costs down within its core running cost budgets, as well as the financial and reputational risks inherent in the *Inspiring People* programme. One other risk that emerged in the year was that arising from the significant decline in visitor numbers to the Gallery generally and to its charging exhibitions. The Gallery was responding to these risks by intensifying the marketing effort around its permanent Collection to drive up footfall. It was also strengthening its income generation through new income lines, as well as continuing to review elements of its core cost base. Note 1a to the accounts outlines the Gallery's response to ensuring that it remains a going concern. In the longer term, the successful implementation of the *Inspiring People* project will be important for the Gallery by providing it with the means to secure a more financially sustainable future. In relation to the project itself the creation of the Project Board and the appointment of key elements of the project team now provides the necessary governance structures to assist in managing the risks inherent in the project. The project's fundraising strategy is reviewed continually and to date has been successfully implemented. The security situation has remained at a heightened level for some time and appears to now be the new 'norm'. In response, the Gallery is implementing proposals to strengthen the capability of the front of house team, to accommodate comfortably the adjustment in the team skillset needed for this change in circumstance.

These risks are reflected in the Gallery's Corporate and Departmental Risk Registers, which include contingent and mitigating action should these and other risks identified by management crystallise.

The National Portrait Gallery has suffered no protected personal data incidents in 2017/18 and has made no such report to the Information Commissioner's Office.

No ministerial directions were given.

Appendix to Governance Statement – Trustee attendance 2017/18

Full Board meeting attendance

	Attendance in 2017/18 (%)
Current Trustees	
Dr Brian Allen	100
Allegra Berman	75
Professor Dame Carol Black	75
Dr Rosalind Blakesley	100
Rob Dickins	100
Kim Evans	100
Sir Michael Hintze	75
Dr Joanna Kennedy	100
Sir William Proby (Chairman, to July 2017)	100
Dr Andrew Roberts	100
David Ross (Chairman, from September 2017)	100
Bjorn Savén	25
Sir Peter Stothard	100
Rachel Wang	100
Average attendance by Trustees over the year	89

David Ross's period of appointment in 2017/18 included three Trustee meetings only. Sir William Proby's period of appointment in the year consisted of two meetings before his term as a Trustee expired.

Audit and Risk Committee attendance

	Attendance in 2017/18 (%)
Committee membership	
David Ross (Trustee and Chairman)	100
Kim Evans (Trustee)	75
Professor Dame Carol Black (Trustee)	75
Stephen Souchon	100
Neil Spence	100
Average attendance by Committee members over the year	87.5

David Ross's period as Chair of the Audit and Risk Committee included two Committee meetings only.

Investment Committee attendance

Attendance in
2017/18 (%)

Committee membership

Allegra Berman (Trustee and Chairman)	100
Bjorn Savén (Trustee)	100
Jeremy Sillem	75
Anthony Brooke	75
Ben Whitmore	50

**Average attendance by Investment
Committee members over the year**

77.5

Bjorn Savén's period of appointment in 2017/18 included three Investment Committee meetings only.

Finance Committee attendance

Attendance in
2017/18 (%)

Committee membership

Allegra Berman (Trustee and Chairman)	100
David Ross (Trustee)	100
Bjorn Savén (Trustee)	100
Kim Evans (Trustee)	100
Sir Michael Hintze (Trustee)	50

**Average attendance by Finance
Committee members over the year**

90

The Finance Committee held its first meeting in February 2018 and met again in March.

These statistics show attendance by Trustees at full Board and Board sub-committee meetings held during 2017/18. The tables do not include the Trustees' attendance at numerous events held by the Gallery during the year, or the meetings attended or consultations given by Trustees about Gallery business outside of these Board and sub-committee meetings.

THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSES OF PARLIAMENT

Opinion on financial statements

I certify that I have audited the financial statements of the National Portrait Gallery for the year ended 31 March 2018 under the Museums and Galleries Act 1992. The financial statements comprise: the Consolidated and Gallery Statements of Financial Activities, the Consolidated and Gallery Balance Sheets, the Consolidated Cash Flow Statement and the related notes, including the significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). I have also audited the information in the Remuneration Report that is described in that report as having been audited.

In my opinion:

- the financial statements give a true and fair view of the state of the group's and of the National Portrait Gallery's affairs as at 31 March 2018 and of its net income/(expenditure) for the year then ended; and
- the financial statements have been properly prepared in accordance with the Museums and Galleries Act 1992 and Secretary of State directions issued thereunder.

Opinion on regularity

In my opinion, in all material respects the income and expenditure recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the National Portrait Gallery and group in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the Trustees and Director

As explained more fully in the Statement of Trustees' and Director's Responsibilities, the Trustees and the Director are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Museums and Galleries Act 1992.

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's and the National Portrait Gallery's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's and the National Portrait Gallery's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the income and expenditure reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Other Information

The Trustees and Director are responsible for the other information. The other information comprises information included in the Trustees' and Accounting Officer's annual report, other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with Secretary of State directions made under the Museums and Galleries Act 1982;
- in the light of the knowledge and understanding of the group and the parent and its environment obtained in the course of the audit, I have not identified any material misstatements in the Trustees' and Accounting Officer's annual report; and
- the information given in the Trustees' and Accounting Officer's annual report which we provide a positive consistency opinion on for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse
Comptroller and Auditor General
10 July 2018

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

**CONSOLIDATED STATEMENT OF FINANCIAL
ACTIVITIES FOR THE YEAR ENDED 31 MARCH 2018**

		Unrestricted Funds	Restricted Funds	Total 2018	Unrestricted Funds	Restricted Funds	Total 2017
Notes	£000	£000	£000	£000	£000	£000	£000
INCOME AND ENDOWMENTS FROM:							
Grant in Aid	2a	7,134	-	7,134	6,637	-	6,637
Donations and legacies	2b	1,808	4,751	6,559	1,743	2,470	4,213
Income from charitable activities							
Exhibitions admissions and touring income		2,614	14	2,628	3,005	18	3,023
Exhibition and programme sponsorship income		1,069	115	1,184	1,115	-	1,115
Learning and access income		84	-	84	109	3	112
		<u>3,767</u>	<u>129</u>	<u>3,896</u>	<u>4,229</u>	<u>21</u>	<u>4,250</u>
Income from other trading activities	2c	3,949	-	3,949	4,693	-	4,693
Other income	2d	293	-	293	280	9	289
Investment income	3	2	-	2	9	1	10
Total income and endowments		<u>16,953</u>	<u>4,880</u>	<u>21,833</u>	<u>17,591</u>	<u>2,501</u>	<u>20,092</u>
EXPENDITURE ON:							
Costs of raising funds							
Costs of raising donations and legacies	5	1,089	101	1,190	1,185	36	1,221
Costs of fundraising trading	5	3,259	28	3,287	3,764	27	3,791
Investment management costs	5	9	14	23	11	48	59
	5	<u>4,357</u>	<u>143</u>	<u>4,500</u>	<u>4,960</u>	<u>111</u>	<u>5,071</u>
Costs of charitable activities							
Extending and broadening audiences	5	2,761	743	3,504	2,800	674	3,474
Developing the Collection	5	5,079	253	5,332	4,988	253	5,241
Increasing understanding and engagement with the Collection	5	5,752	1,231	6,983	6,079	1,177	7,256
	5	<u>13,592</u>	<u>2,227</u>	<u>15,819</u>	<u>13,867</u>	<u>2,104</u>	<u>15,971</u>
Total Resources expended		<u>17,949</u>	<u>2,370</u>	<u>20,319</u>	<u>18,827</u>	<u>2,215</u>	<u>21,042</u>
Net gains/(losses) on investments	8	2	415	417	348	860	1,208
Net income/(expenditure)		<u>(994)</u>	<u>2,925</u>	<u>1,931</u>	<u>(888)</u>	<u>1,146</u>	<u>258</u>
Transfers between funds	13	411	(411)	-	(420)	420	-
Other recognised gains/(losses):							
Gains/(losses) on revaluation of fixed assets	6&13	(4)	(5,018)	(5,022)	27	2,262	2,289
Net movement in funds		<u>(587)</u>	<u>(2,504)</u>	<u>(3,091)</u>	<u>(1,281)</u>	<u>3,828</u>	<u>2,547</u>
Reconciliation of funds:							
Total funds brought forward at 1 April		7,995	125,601	133,596	9,276	121,773	131,049
Total funds carried forward at 31 March		<u>7,408</u>	<u>123,097</u>	<u>130,505</u>	<u>7,995</u>	<u>125,601</u>	<u>133,596</u>

All operations of the Gallery continued throughout both periods and no operations were acquired or discontinued in either period.

The notes on pages 54 to 77 form part of these accounts.

**GALLERY STATEMENT OF FINANCIAL
ACTIVITIES FOR THE YEAR ENDED 31 MARCH 2018**

		Unrestricted Funds	Restricted Funds	Total 2018	Unrestricted Funds	Restricted Funds	Total 2017
Notes	£000	£000	£000	£000	£000	£000	£000
INCOME AND ENDOWMENTS FROM:							
Grant in Aid	2a	7,134	-	7,134	6,637	-	6,637
Donations and legacies	2b	1,808	4,751	6,559	1,743	2,470	4,213
Income from charitable activities							
Exhibitions admissions and touring income		2,614	14	2,628	3,005	18	3,023
Exhibition and programme sponsorship income		1,069	115	1,184	1,115	-	1,115
Learning and access income		84	-	84	109	3	112
		<u>3,767</u>	<u>129</u>	<u>3,896</u>	<u>4,229</u>	<u>21</u>	<u>4,250</u>
Income from other trading activities	2c	3,243	-	3,243	3,797	-	3,797
Other income	2d	265	-	265	262	9	271
Investment income	3	2	-	2	5	1	6
Total income and endowments		<u>16,219</u>	<u>4,880</u>	<u>21,099</u>	<u>16,673</u>	<u>2,501</u>	<u>19,174</u>
EXPENDITURE ON:							
Costs of raising funds							
Costs of raising donations and legacies	5	1,089	101	1,190	1,185	36	1,221
Costs of fundraising trading	5	2,525	28	2,553	2,846	27	2,873
Investment management costs	5	9	14	23	11	48	59
	5	<u>3,623</u>	<u>143</u>	<u>3,766</u>	<u>4,042</u>	<u>111</u>	<u>4,153</u>
Costs of charitable activities							
Extending and broadening audiences	5	2,761	743	3,504	2,800	674	3,474
Developing the Collection	5	5,079	253	5,332	4,988	253	5,241
Increasing understanding and engagement with the Collection	5	5,752	1,231	6,983	6,079	1,177	7,256
	5	<u>13,592</u>	<u>2,227</u>	<u>15,819</u>	<u>13,867</u>	<u>2,104</u>	<u>15,971</u>
Total Resources expended		<u>17,215</u>	<u>2,370</u>	<u>19,585</u>	<u>17,909</u>	<u>2,215</u>	<u>20,124</u>
Net gains/(losses) on investments	8	2	415	417	348	860	1,208
Net income/(expenditure)		<u>(994)</u>	<u>2,925</u>	<u>1,931</u>	<u>(888)</u>	<u>1,146</u>	<u>258</u>
Transfers between funds	13	411	(411)	-	(420)	420	-
Other recognised gains/(losses):							
Gains on revaluation of fixed assets	6&13	(4)	(5,018)	(5,022)	27	2,262	2,289
Net movement in funds		<u>(587)</u>	<u>(2,504)</u>	<u>(3,091)</u>	<u>(1,281)</u>	<u>3,828</u>	<u>2,547</u>
Reconciliation of funds:							
Total funds brought forward at 1 April		7,995	125,601	133,596	9,276	121,773	131,049
Total funds carried forward at 31 March		<u>7,408</u>	<u>123,097</u>	<u>130,505</u>	<u>7,995</u>	<u>125,601</u>	<u>133,596</u>

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 54 to 77 form part of these accounts.

CONSOLIDATED BALANCE SHEET
AS AT 31 MARCH 2018

	Notes	2018 £000	2017 £000
Fixed Assets			
Tangible assets	6	81,666	88,540
Heritage Assets	7	31,919	31,522
Available for Sale Financial Assets - Investments	8	6,142	5,238
		<u>119,727</u>	<u>125,300</u>
Current Assets			
Stock	11	602	639
Debtors and prepayments	10	1,214	1,234
Available for Sale Financial Assets - Investments	8	6,002	8,214
Cash at bank and in hand	9	9,005	1,387
		<u>16,823</u>	<u>11,474</u>
Current Liabilities			
Creditors (amounts falling due within one year)	12	<u>3,455</u>	<u>3,178</u>
Net Current Assets		13,368	8,296
Total Assets less Current Liabilities		<u>133,095</u>	<u>133,596</u>
Long Term Liabilities			
Creditors (amounts falling due after one year)	12	2,590	-
Net Assets		<u>130,505</u>	<u>133,596</u>
Represented by:			
Restricted Funds			
Restricted Funds	13	65,711	63,197
Fixed Asset Revaluation Fund	13	57,386	62,404
Total Restricted Funds		<u>123,097</u>	<u>125,601</u>
Unrestricted Funds			
Designated funds	13	6,848	7,431
Fixed asset revaluation fund	13	260	264
Total Designated funds		<u>7,108</u>	<u>7,695</u>
General funds	13	300	300
Total Funds		<u>130,505</u>	<u>133,596</u>

The notes on pages 54 to 77 form part of these accounts.

Dr Nicholas Cullinan
Accounting Officer
5 July 2018

David Ross
Chairman of Trustees
5 July 2018

GALLERY BALANCE SHEET
AS AT 31 MARCH 2018

	Notes	£000	2018 £000	2017 £000
Fixed Assets				
Tangible assets	6		81,666	88,540
Heritage Assets	7		31,919	31,522
Available for Sale Financial Assets - Investments	8		6,142	5,238
			<u>119,727</u>	<u>125,300</u>
Current Assets				
Stock	11	308		323
Debtors and prepayments	10	1,781		2,135
Available for Sale Financial Assets - Investments	8	6,002		8,214
Cash at bank and in hand		8,631		725
		<u>16,722</u>		<u>11,397</u>
Current Liabilities				
Creditors (amounts falling due within one year)	12	<u>3,354</u>		<u>3,101</u>
Net Current Assets			13,368	8,296
Total Assets less Current Liabilities			<u>133,095</u>	<u>133,596</u>
Long Term Liabilities				
Creditors (amounts falling due after one year)	12		2,590	-
Net Assets			<u>130,505</u>	<u>133,596</u>
Represented by:				
Restricted Funds				
Restricted Funds	13		65,711	63,197
Fixed Asset Revaluation Fund	13		<u>57,386</u>	<u>62,404</u>
Total Restricted Funds			<u>123,097</u>	<u>125,601</u>
Unrestricted Funds				
Designated funds	13		6,848	7,431
Fixed asset revaluation fund	13		<u>260</u>	<u>264</u>
Total Designated funds			<u>7,108</u>	<u>7,695</u>
General funds	13		300	300
Total Funds			<u>130,505</u>	<u>133,596</u>

The notes on pages 54 to 77 form part of these accounts.

Dr Nicholas Cullinan
Accounting Officer
5 July 2018

David Ross
Chairman of Trustees
5 July 2018

CONSOLIDATED CASH FLOW STATEMENT
AS AT 31 MARCH 2018

	Notes	2018 £000	2017 £000
Cashflow from operating activities	19	6,653	1,190
Cashflow from investing activities			
Payments to acquire tangible fixed assets		(715)	(2,153)
Payments to acquire investments		(546)	(2,040)
Receipts from sales of investments		2,224	1,260
Dividends, interest and rent received from investments		<u>2</u>	<u>10</u>
	19	965	(2,923)
Cashflow from financing activities	19	-	-
Change in cash and cash equivalents in the year		<u>7,618</u>	<u>(1,733)</u>
Cash and cash equivalents at 1 April 2017		1,387	3,120
Cash and cash equivalents at 31 March 2018		<u>9,005</u>	<u>1,387</u>

The notes on pages 54 to 77 form part of these accounts.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2018

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 required valuation methods for financial instruments. The accounts comply with FRS 102, the Charities SORP (FRS 102), Accounting and Reporting by Charities: Statement of Recommended Practice, applicable accounting standards and the Accounts Direction issued by the Department for Digital, Culture, Media and Sport (DCMS). The accounts include two trust funds (established by the Gallery under Deeds of Trust) 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 accounts also exclude the Portrait Trust, which is an independent foundation trust established in March 2012, over which the Gallery has no control. The Gallery is recognised as an exempt charity under the provisions of the Charities Act 2011 and is a public benefit entity. The accounts have been prepared on a going concern basis, in accordance with the Accounts Direction, but also on the basis that, in the light of the Gallery's status as a statutory body, the Board of Trustees and Accounting Officer consider that there are no material uncertainties about the Gallery's ability to continue. The going concern presumption is supported by confirmation from the DCMS of the Gallery's allocation of grant-in-aid for 2018/19. The Gallery is also budgeting to earn a surplus in 2018/19 and commences that financial year with brought forward unrestricted reserves of £2.1 million. The Gallery has a further £1.1 million of unrestricted cash accounted for as deferred income as at 31 March 2018. The creation of a Finance Committee to replace the Finance Trustee, with more regular and deeper scrutiny of the in-year financial performance of the Gallery, will alert the Board to issues arising with the Gallery's budgets and direct management's response accordingly.

The Consolidated accounts are for the National Portrait Gallery and its subsidiary National Portrait Gallery Company Limited (the Company), (company number 6015724); the Company began trading on 1 April 2007. The Gallery is exempt from corporation tax on its charitable activities under section 466-493 of the Corporation Tax Act 2010. Income arising from activities of the trading subsidiary are gift aided to the Gallery.

b) *Income*

All income is included in the Statement of Financial Activities when the Gallery is entitled to the income, receipt is probable and its amount can be measured reliably.

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 Digital, 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, receipt is probable and the legacy amount can be measured reliably.

c) *Expenditure*

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

Charitable activities expenditure and costs of raising donations and legacies comprise direct expenditure including direct staff costs attributable to the Gallery, the cost of donor cultivation, advocacy and communications, as well as legal expenses and certain fundraising project expenses. 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, governance, IT and communications, facilities management and depreciation). Fundraising costs are those incurred in seeking voluntary contributions for the Gallery.

Staff compensation payments are recognised as a liability and an expense at the point the exit settlements are signed by both the Gallery and the staff member.

1. ACCOUNTING POLICIES (continued)

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

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*

Heritage assets are capitalised where cost or valuation information is available. Where assets have been acquired jointly with another party, their carrying value reflects the proportion of the Gallery's holding. Trustees have considered the cost of capitalising acquisitions where no appropriate valuation exists and have found that the cost outweighs the benefit of doing so. Heritage assets are not depreciated as a matter of routine as they are considered to have an indefinite useful economic life. The valuations of donated acquisitions have been made by the Gallery's staff and therefore represent an indicative estimate, and are not revalued in future periods. Impairment reviews are carried out at the end of each reporting period, to ensure that the carrying values of the heritage assets reflect their carrying amounts.

Expenditure which is required to preserve or prevent further deterioration of individual collection items is recognised in the Statement of Financial Activities when it is incurred.

f) *Tangible fixed assets*

The Gallery capitalises the purchase of assets which cost more than £5,000. IT hardware and software assets which cost more than £1,000 are also capitalised, as too are laptops, PC monitors and central processor units.

Land and buildings are professionally valued every five years; the last such valuation was undertaken as at 31 March 2014. In the years between professional valuations of land and buildings, and every year for certain other fixed assets, the BIS Price Tender Index for Public Sector Buildings (Non-Housing) is used to adjust the net book value of the Buildings and the ONS: MM22 General Mechanical Engineering index is used to revalue Plant & Machinery. A desk top valuation of the land element is also undertaken in each year between professional revaluations, by the Gallery's surveyors. Assets other than land, buildings, plant and machinery are accounted for on a depreciated historical cost basis, these assets are either of low value or have short lives, therefore the impact of applying indexation would not be material. Impairment reviews are carried out at the end of each reporting period, in accordance with the Charities SORP (FRS 102), to ensure that the carrying values of the assets reflect the recoverable amounts.

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 buildings and plant and machinery, depreciation is calculated after indexation; for assets under construction, depreciation is not charged until the year the asset has been brought into use. Depreciation is charged on additions and not on disposals.

Indicative asset lives are as follows:

Freehold buildings	5 - 70 years
Leasehold land and buildings	length of lease (10 - 99 years) or Useful Economic Life (40-50 years), whichever is shorter
Plant and machinery	5 - 19 years
Furniture and equipment	3 - 10 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 impairment is recognised in the Statement of Financial Activities.

g) *Financial Instruments*

Financial Assets

The Gallery classifies its financial assets in the following categories: loans and receivables and available-for-sale. The classification depends on the purpose for which the financial asset was acquired.

i. Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. The Gallery has no intention of trading these loans and receivables. Subsequent to initial recognition at fair value, these assets are carried at amortised cost, less impairment, using the effective interest method. Loans and receivables consist of trade and other debtors.

ii. Available-for-sale financial assets

Available-for-sale ("AFS") financial assets are mainly investments that the Gallery does not plan to hold until maturity. They are included in fixed assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Investments that are treated as AFS financial assets are stated at fair value (market value). Where possible, investments are valued using unadjusted quoted prices in active markets for identical financial instruments. 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 8 of the difference between historical cost and the sale proceeds of the investments sold during the year.

Impairment of financial assets

An assessment of whether there is objective evidence of impairment is carried out for all financial assets or groups of financial assets at the balance sheet date. A financial asset, or group of financial assets, is considered to be impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event has an impact on the estimated future cash flows of the asset or group of assets that can be reliably estimated.

Where there is objective evidence that an impairment loss exists on loans and receivables carried at amortised cost, impairment provisions are made to reduce the carrying value to the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. The charge to the Statement of Financial Activities represents the movement in the level of provisions, together with any amounts written off, net of recoveries in the year.

Financial liabilities

Trade, other creditors and accruals are recorded at their initially recognised amount, in recognition that these liabilities fall due within 1 year.

The Voted Loan is accounted for on an amortised cost basis using the effective interest rate method.

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.

1. ACCOUNTING POLICIES (continued)

i) *Leases*

At 31 March 2018, the Gallery had one finance lease relating to a 99 year lease for part of the East Wing for which the Gallery is charged a peppercorn rent. The lease arrangement ceased in April 2018 upon the purchase of the East Wing from the National Gallery. 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.

k) *Pension costs*

Past and present employees are covered by the provisions of the Principal Civil Service Pension Schemes (PCSPS) and the Public Service (Civil Servants and Others) Pension Scheme (CSOPS) which are described at Note 5. Pension benefits are provided through the Civil Service pension arrangements. From 1 April 2015 a new pension scheme for civil servants was introduced – the Civil Servants and Others Pension Scheme or alpha, which provides benefits on a career average basis with a normal pension age equal to the member's State Pension Age (or 65 if higher). From that date all newly appointed civil servants and the majority of those already in service joined alpha. Prior to that date, civil servants participated in the Principal Civil Service Pension Scheme (PCSPS). The PCSPS has four sections: 3 providing benefits on a final salary basis (classic, premium or classic plus) with a normal pension age of 60; and one providing benefits on a whole career basis (nuvos) with a normal pension age of 65. Both schemes are defined benefits schemes. The defined benefit elements of the schemes are unfunded. 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 and CSOPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS and CSOPS. In respect of the defined contribution elements of the schemes, the Gallery recognises the contributions payable for the year.

l) *Governance costs*

Internal and external audit fees, costs of Trustees meetings, planning costs and an allocation of the cost of certain staff within the Finance Department are categorised as Governance costs.

2a. GRANT IN AID	Unrestricted	Restricted	Total	Total
	Funds	Funds	2018	2017
	£000	£000	£000	£000
Running costs	6,881	-	6,881	6,381
Capital costs	253	-	253	256
	<u>7,134</u>	<u>-</u>	<u>7,134</u>	<u>6,637</u>

The Consolidated accounts are for the National Portrait Gallery and its subsidiary National Portrait Gallery Company Limited (the Company), (company number 6015724); the Company began trading on 1 April 2007. The Gallery is exempt from corporation tax on its charitable activities under section 446-493 of the Corporation Tax Act 2010. Income arising from activities of the trading subsidiary are gift aided to the Gallery.

This money is available for running costs, capital purchases, improvements and collection purchases; of this, £253,000 was provided by the DCMS to be utilised by the Gallery towards the purchase of capital items, (£256,000 in 2016/17).

All of the above income relates to the Gallery rather than the trading company.

2b. DONATIONS AND LEGACIES	Unrestricted	Restricted	Total	Total
	Funds	Funds	2018	2017
	£000	£000	£000	£000
Fundraising dinners	161	-	161	493
Individual giving	1,125	-	1,125	1,010
Grants and donations	349	3,998	4,347	1,033
Donated acquisitions	-	333	333	481
Donations for acquisitions	-	385	385	1,038
Income from Lottery	-	35	35	37
Legacies	-	-	-	15
Donated services	100	-	100	-
Other fundraising income	73	-	73	106
	<u>1,808</u>	<u>4,751</u>	<u>6,559</u>	<u>4,213</u>

All of the above income relates to the Gallery rather than the trading company.

2c. INCOME FROM OTHER TRADING ACTIVITIES	Unrestricted	Restricted	Total	Total
	Funds	Funds	2018	2017
	£000	£000	£000	£000
Gallery trading income				
Corporate members	175	-	175	133
Publications	485	-	485	682
Rights & Images	310	-	310	321
	<u>970</u>	<u>-</u>	<u>970</u>	<u>1,136</u>
Trading subsidiary trading income				
Gallery hire	372	-	372	397
Retail	2,115	-	2,115	2,638
Catering franchise	492	-	492	522
	<u>2,979</u>	<u>-</u>	<u>2,979</u>	<u>3,557</u>
	<u>3,949</u>	<u>-</u>	<u>3,949</u>	<u>4,693</u>

An additional £1,509,000 of income (2016/17 £1,600,000) due to the Gallery from the Company has been eliminated on consolidation. This relates to sales of the Gallery's publications by the trading company and the management charge. Trading company profits of £764,000 (2016/17 £1,061,000) have been gift aided to the Gallery for 2017/18. In total, this brings the Gallery's non consolidated trading income to £3,243,000 (2016/17 £3,797,000).

2d. OTHER INCOME	Unrestricted	Restricted	Total	Total
	Funds	Funds	2018	2017
	£000	£000	£000	£000
Recovery of utility costs	65	-	65	63
Sale of audio guide, floor plans, locker charges	150	-	150	141
Collection loans income	4	-	4	13
Other	74	-	74	72
	<u>293</u>	<u>-</u>	<u>293</u>	<u>289</u>

All of the above income relates to the Gallery rather than the trading company with the exception of £28,000 of cloakroom locker income (2016/17 £18,000).

3. INVESTMENT INCOME

	2018 £000	2017 £000
Bank interest	2	10
	<u>2</u>	<u>10</u>

All of the above income relates to the Gallery rather than the trading company (In 2016/17, £4,000 of bank interest related to the Company).

4. NET INCOMING/EXPENDITURE

is stated after charging:	2018 £000	2017 £000
a) External auditors' remuneration		
National Audit Office	34	34
PKF Littlejohn LLP	<u>10</u>	<u>10</u>
b) Internal auditors' remuneration	16	16
c) Operating lease rentals on land and buildings	153	153
d) Operating lease rental on fixtures & equipment	8	8
e) Depreciation	2,355	2,342

The audit fee relates solely to audit services provided by the National Audit Office and PKF Littlejohn LLP.

5. EXPENDITURE

	Direct costs	Allocated support costs	2018	2017
	£000	£000	Total £000	Total £000
Costs of raising funds				
Costs of raising donations and legacies	932	258	1,190	1,221
Costs of fundraising trading				
Charitable trading	1,136	246	1,382	1,625
Non-charitable trading	1,611	294	1,905	2,166
Total costs of fundraising trading	2,747	540	3,287	3,791
Investment management costs	23	-	23	59
Total costs of raising funds	3,702	798	4,500	5,071
Costs of charitable activities				
Extending and broadening audiences				
Publicity and information	1,051	121	1,172	1,183
National programme	182	42	224	220
Learning and access	1,258	850	2,108	2,071
	2,491	1,013	3,504	3,474
Developing the Collection				
Collection management	3,713	1,619	5,332	5,241
Increasing understanding and engagement with the Collection				
Research and documentation	1,241	832	2,073	2,145
Exhibitions and display	2,477	2,413	4,890	5,091
Charitable grants	20	-	20	20
	3,738	3,245	6,983	7,256
Total costs of charitable activities	9,942	5,877	15,819	15,971
	13,644	6,675	20,319	21,042

The Charitable grant relates to a grant made to the Portrait Trust for the furtherance of its charitable objectives.

ALLOCATION OF SUPPORT COSTS

	Directorate & Office Services	Personnel	Finance & Planning	IT & Communications	Facilities Management	Depreciation	Support Salary costs	Governance Costs	Total 2018	Total 2017
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Costs of raising funds										
Costs of raising donations and legacies	12	18	18	43	17	25	118	7	258	267
Costs of fundraising trading										
Charitable trading	9	14	22	32	29	43	88	9	246	232
Non-charitable trading	3	17	4	17	78	-	175	-	294	274
Investment management costs	-	-	-	-	-	-	-	-	-	-
Costs of charitable activities										
Publicity and information	5	6	20	15	11	15	41	8	121	89
National programme	3	3	4	6	4	5	16	1	42	39
Learning and access	12	19	24	44	244	374	123	10	850	837
Extending and broadening audiences	20	28	48	65	259	394	180	19	1,013	965
Collection management	9	117	72	33	243	368	748	29	1,619	1,474
Developing the Collection	9	117	72	33	243	368	748	29	1,619	1,474
Research and documentation	17	28	24	65	201	308	179	10	832	846
Exhibitions and display	19	33	48	77	786	1,217	214	19	2,413	2,371
Increasing understanding and engagement with the Collection	36	61	72	142	987	1,525	393	29	3,245	3,217
Total	89	255	236	332	1,613	2,355	1,702	93	6,675	6,429

All of the above expenditure relates to the Gallery rather than the trading company with the exception of £734,000 of non charitable trading costs (2016/17 £918,000).

The Gallery received consultancy services donated in kind from Deloitte LLP with a market value of £100,000 during 2017/18. The notional cost is included within Finance & Planning support costs.

5. EXPENDITURE (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, Governance costs: per direct and staff costs

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

GOVERNANCE COSTS	2018	2017
	£000	£000
Breakdown of direct costs		
Trustees' meetings and expenses	3	3
Internal Audit	16	16
External Audit (Gallery)	34	34
External Audit (Company)	10	10
Finance and Planning costs	32	30
	<u>95</u>	<u>93</u>

a) Staff costs	2018	Restated 2017
	£000	£000
Staff costs during the year amounted to:		
Wages and salaries	8,658	9,115
National Insurance	742	761
Pension	1,507	1,398
Compensation Payments	562	133
	<u>11,469</u>	<u>11,407</u>

Of which staff costs capitalised for digitising the Collection:
equivalent to 2 FTE staff in 2017/18 (2 in 2016/17).

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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 2017/18 the value of the seconded staff costs was £678,513 (£688,293 in 2016/17), which was equivalent to 19 full time staff (20 in 2016/17).

The Trustees neither received nor waived any emoluments during the year (also in 2016/17). Expenses reimbursed or paid on behalf of one Trustee amounted to £293, relating to travel and subsistence (in 2016/17, £1,393 for travel and subsistence of two Trustees).

Use of consultants and temporary staff

No expense was incurred on consultants during the year (£4,600 in 2016/17). £221,000 was spent on agency staff (contingent labour) in the year, (£317,000 in 2016/17).

Pensions

Information on Gallery staff pension schemes are provided in the Remuneration Report.

The Principal Civil Service Pension Scheme (PCSPS) and the Civil Servant and Other Pension Scheme (CSOPS) - known as "alpha" - are unfunded multi-employer defined benefit schemes 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 2012. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice.gov.uk/pensions). For 2017/18, employers' contributions of £1,481,033 were payable to the PCSPS (2016/17 £1,505,571) at one of four rates in the range 20.0% to 24.5% (2016/17 20.0% to 24.5%) of pensionable earnings, based on salary bands. The Scheme Actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2017/18 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 £25,921 (£25,062 in 2016/17) were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 8% to 14.75% of pensionable earnings from 1 October 2015. Employers also match employee contributions up to 3% of pensionable earnings. In addition, employer contributions of £1,051 (£954 in 2016/17), 0.5% of pensionable pay from 1 October 2015, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service or ill health retirement of these employees.

Contributions due to the partnership pension providers at the balance sheet date were £2,190 (£1,482 in 2016/17). There were no contributions prepaid at that date.

6. TANGIBLE FIXED ASSETS

	Land and buildings £000	Plant and machinery £000	Furniture & equipment £000	Total tangible assets £000
Valuation/cost at 1 April 2017	87,582	6,604	3,590	97,776
Additions	333	29	141	503
Disposals	-	-	(55)	(55)
Revaluation adjustment	(4,093)	(6)	-	(4,099)
Valuation/cost at 31 March 2018	83,822	6,627	3,676	94,125
Depreciation at 1 April 2017	4,469	1,688	3,079	9,236
Disposals	-	-	(55)	(55)
Depreciation	1,539	573	243	2,355
Revaluation adjustment	925	(2)	-	923
Depreciation at 31 March 2018	6,933	2,259	3,267	12,459
Net book value at 31 March 2018	76,889	4,368	409	81,666
Net book value at 31 March 2017	83,113	4,916	511	88,540

Tangible fixed assets relate to the Gallery. The Company has no fixed assets.

The net book value at 31 March 2018 represents fixed assets for:

	Land & Buildings £000	Plant & Machinery £000	Furniture & Equipment £000	Total £000
Charitable activities	69,611	3,955	370	73,936
Other activities	7,278	413	39	7,730
Total	76,889	4,368	409	81,666

All the Gallery's land and buildings were revalued in accordance with the RICS Valuation Standards (the "Red Book") by the firm of chartered surveyors, Deloitte LLP, at 31 March 2014, at which time they were valued at £81.2 million (excluding plant and machinery, which was valued at £6.2 million). In accordance with HM Treasury guidance, all other assets have been valued on a depreciated historical cost basis. The annual desktop revaluation of the Gallery's land was undertaken by BNP Paribas Real Estate. The desktop revaluation was undertaken in accordance with the RICS Valuation Standards (the "Red Book") and the HM Treasury Financial Reporting Manual (FRM). The surveyors also took account of Central London land transactions, general capital value movements and that any replacement site would be predicated on the 'least cost' concept, to arrive at a value per acre. For the leasehold land a discount rate was applied to the value per acre of the freehold site.

In accordance with FRS 102 Section 17, *Property, Plant and Equipment*, 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, fit out and plant and machinery. Structural and fit out 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 2014 on a depreciated replacement cost basis of £75 million (including plant and machinery). The current net book value is £71.2 million (including plant and machinery). The St Martin's Place building also includes the East Wing, which occupies a frontage onto Charing Cross Road. The East Wing is part of the structure of the National Portrait Gallery but ownership was transferred to the National Gallery as part of the arrangements for the creation of the Ondaatje Wing. At 31 March 2018, the National Portrait Gallery leased the East Wing spaces occupied by the Portrait Cafe and main shop from the National Gallery through a 99 year finance lease. This lease has been capitalised as at 31 March 2018 at a value of £2,657,000. In April 2018, the National Portrait Gallery purchased the freehold for the East Wing from the National Gallery for £2,600,000.

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, and were brought into the balance sheet as at 31 March 1994 at a value of £9.1 million (including plant and machinery). These properties were revalued at 31 March 2014 on an existing use basis at £12.3million (including plant and machinery), with an allowance to reflect the restrictions described. The current net book value is £10 million (including plant and machinery).

The net book value of land and buildings relates to:

	£000
Freehold	74,232
Finance lease (greater than 50 years)	2,657
Short term lease (less than 50 years)	-
	76,889

7. HERITAGE ASSETS

	Assets reported at Cost			Assets reported at Valuation			Total
	Primary	Reference	Photographs	Primary	Reference	Photographs	
	£000	£000	£000	£000	£000	£000	£000
Valuation/cost at 1 April 2017	22,377	50	667	5,051	3,011	366	31,522
Additions	38	4	22	214	1	118	397
Valuation/cost at 31 March 2018	22,415	54	689	5,265	3,012	484	31,919

Heritage assets are capitalised at the point of acquisition, where cost and valuation information is available. Where assets have been acquired jointly with another party, their carrying value reflects the proportion of the Gallery's holding. Trustees have considered the cost of capitalising acquisitions where no appropriate valuation exists and have found that the cost outweighs the benefit of doing so. The valuations of donated acquisitions have been made by the Gallery's staff and therefore represent an indicative estimate. In reaching these valuations curators compare portraits donated to the Collection with the values of comparable items on the open market, taking account of differences in condition, size, status and market desirability. Such items are not depreciated or re-valued as a matter of routine as they are considered to have indefinite useful economic lives.

There were no disposals of heritage assets in the period.

Additions in the year comprise:

Primary Collection

£38,000 purchases of portraits – paintings, sculptures and photographs.
 £214,000 donations of paintings, sculptures and photographs.

Reference Collection

£4,000 purchases of prints, drawings, paintings and sculptures.
 £1,000 donations of prints, drawings, paintings and sculptures.

Photographs Collection

£22,000 purchases of photographs and historic negatives.
 £118,000 donations of photographs and historic negatives.

Summary of Heritage asset transactions

	2018	2017	2016	2015	2014
	£000	£000	£000	£000	£000
Additions					
Purchased assets	64	1,881	275	9,901	458
Donated assets	333	486	4,162	286	857
Total	397	2,367	4,437	10,187	1,315

The Gallery's collections are held in support of its statutory obligations 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, and to promote the appreciation and understanding of portraiture in all media.

Primary Collection

The Primary Collection of paintings, sculpture, miniatures, drawings, prints, photographs, silhouettes and mixed/new media works contains some 12,597 portraits of the most famous people in British history. Of these, 4,109 are paintings, sculptures and miniatures, approaching 60% of which are regularly displayed at the National Portrait Gallery or elsewhere. In addition, there are some 8,471 works on paper, shown on a rotating basis of about 120 items a year. Access to the permanent collections is free; however most of our temporary exhibitions are ticketed providing an increasingly essential source of revenue. Normally items not on display can be made available for viewing via the Acquisitions & Displays Registrar. The Collection is also made widely available via the Portrait Explorer within the Gallery, on the internet (at www.npg.org.uk) and in Gallery and other publications.

Reference Collection

There are more than 335,000 images in the Reference Collections, divided between the Archive and Library's Reference Collection of about 85,000 items, mainly prints but also 2,500 drawings, 75 paintings, 140 sculptures, and a small but growing collection of popular ceramics. The Reference Collection is used for study and exhibition, and has been extensively reproduced in books and other publications.

7. HERITAGE ASSETS (continued)

Photographs Collection

The Photographs Collection consists of more than 250,000 original photographic images of which at least 130,000 are original negatives. They date from the 1840s to the present day. The collection is divided into two parts; photographic portraits that are subsumed into the Gallery's Primary Collection of portraits, and the remainder which form the Photographs Collection.

Access to the permanent collections is free; however most of our temporary exhibitions are ticketed providing an increasingly essential source of revenue. Normally items not on display can be made available for viewing via the Acquisitions & Displays Registrar. The Collection is also made widely available via the Portrait Explorer within the Gallery, on the internet (at www.npg.org.uk) and in Gallery and other publications.

Capitalisation of the Collections

The capitalised heritage assets reflect a small proportion of the Gallery's collections: only 11% of the Primary Collection, 2% of Photographs Collection and under 1% of the Reference Collection. The Gallery has calculated that it would not be cost effective – in terms of expense and staff time - to capitalise all of its collections acquired before 2001 (for the Primary and Photographs Collections) and 2005 (in the case of the Reference Collection). The findings from the Gallery's review into the cost of capitalising all of its collections can be viewed at www.npg.org.uk/about/corporate/gallery-policies/capitalising-the-gallery-s-heritage-assets

Acquisitions and disposals

Acquisitions for the Primary Collection are subject to the approval of the Board of Trustees which meets four times a year. The Gallery's formal collecting policy is set out in the Acquisition and Disposal policy, which can be viewed on the Gallery's website, at www.npg.org.uk/about/corporate/gallery-policies/acquisition-and-disposal-policy.php.

Conservation

The National Portrait Gallery's conservation staff perform one of the Gallery's core functions, the long-term preservation of all Collection items, to make them accessible now and in the future. The majority of conservation work at the Gallery is undertaken in the Frame Conservation and General Conservation studios.

Conservators have a variety of responsibilities, including: remedial work, such as cleaning, consolidating, infilling and retouching; preservation work, to ensure works are stable and suitable for display in the Gallery or on loan; providing advice and guidance to ensure all Collection items are correctly handled, packed, moved and displayed; and regularly surveying Collections in the Gallery and in storage.

Collections Management

The Primary, Photograph and Reference Collections are recorded on the Gallery database, Multi Mimsy, and this database serves as the register of the Collection. It is used to provide information on portraits in the Collection on the Gallery website.

The condition and storage of acquisitions for the Collection are considered at the point of acquisition. Items in the various collections are kept in environmentally controlled conditions. The condition and the management of the collections are then subject to review on a portrait-by-portrait basis as and when portraits are used for exhibition or other use at the Gallery or elsewhere. The condition and the management of the collection is also subject to review in other ways, firstly across a whole group of objects in a particular medium as and when opportunity or the need arises for a wider survey, secondly at a particular location as a matter of regular review and, thirdly as a matter of day-to-day review by staff working with the collections on display and in store. The Collection is subject to periodic random audit to make sure that portraits are located as recorded on the database. There is close and frequent liaison between collection managers, curators and conservators, and also with security staff as necessary.

8. AVAILABLE FOR SALE FINANCIAL ASSETS - INVESTMENTS

Fixed asset investments

	Restricted Funds	
	Partners Capital	
	Portrait Fund TMP	
	2018	2017
	£000	£000
Market value at 1 April 2017	5,238	4,587
Additions	540	743
Disposals	-	(670)
Net gain/(loss) on revaluation	364	578
Market value at 31 March 2018	6,142	5,238
Historical cost at 31 March 2018	3,620	3,080
Unrealised Investment Gains at 31 March 2018	2,522	2,158

All investments relate to the Gallery only. These investments are being held for the purposes of producing a long term return and are not intended to be spent within the next 12 months. Funds held by Partners Capital LLP are invested in The Master Portfolio (TMP), which is a collective investment scheme, created by Partners Capital, that invests across a range of asset classes and securities (which may include investments in other collective investment schemes). The investments in The Master Portfolio are held within the Portrait Fund portfolio.

	2018	2017
	£000	£000
Investment assets in the UK	-	-
Investment assets outside the UK	6,142	5,238
	6,142	5,238

Current asset investments

	Partners Capital			2018	2017
	Restricted Funds		Restricted/ Unrestricted Funds		
	Portrait Fund	Catalyst	Investment & Contingency Fund	£000	£000
	£000	£000	£000	£000	£000
Market value at 1 April 2017	3,935	9	4,270	8,214	6,928
Add: Acquisitions at cost	6	-	-	6	1,297
Less: disposal proceeds	(540)	(6)	(1,678)	(2,224)	(590)
Investment management charges deducted	(35)	-	(12)	(47)	(51)
Gain/(loss) on revaluation	54	(3)	2	53	630
Market value at 31 March 2018	3,420	-	2,582	6,002	8,214
Historical cost at 31 March 2018	3,200	-	1,359	4,559	6,497
Unrealised Investment Gains/(Losses) at 31 March 2018	220	-	1,223	1,443	1,717

These investments are being held for the purposes of producing a return, but the Gallery considers that they should remain highly liquid and available to spend within the next 12 months. Following the ending of the Catalyst match funding scheme in 2015, the investments in the Catalyst Fund were subsumed into the Portrait Fund in 2016/17, except for a final balance of £9,000 held to clear any outstanding fees to investment managers and other charges associated with closing down the fund. The residual cash following these final adjustments was transferred to the Portrait Fund in 2017/18.

The investment management charges in the SOFA are charged on an accruals basis. The investment management charges are deducted from the funds in arrears.

At 1 April 2017, the Investment & Contingency Investment Portfolio held restricted funds of £1,703,000 representing the balance on the Grants & Donations Fund, and unrestricted funds of £2,567,000. During the year, £1,138,000 of the £1,703,000 Grants & Donations balance was disposed from the portfolio to be held as Cash at Bank. The remaining £565,000 was de-designated from the Grants & Donations Fund to the Investment & Contingency Fund; all within the Investment & Contingency Investment Portfolio. Accordingly, at 31 March 2018, the Investment & Contingency Investment Portfolio represents only unrestricted funds.

	2018	2017
	£000	£000
<i>Investment assets in the UK</i>		
Government stocks (Inflation linked Gilts)	344	344
Real Assets (charities property fund)	749	674
Global equities fund	-	-
Absolute return	344	391
<i>Investment assets outside the UK</i>		
Government stocks (index-linked UK Gilts and conventional UK Gilts)	268	366
Asian local currency bonds	-	-
Corporate bonds	2,370	3,427
Global equities fund	231	229
Absolute return	417	558
Cash	1,279	2,225
	6,002	8,214

9. FINANCIAL RISK MANAGEMENT

FRS 102 Section 11, *Basic Financial Instruments* requires entities to provide disclosures which allow users of the accounts to evaluate the significance of financial instruments for the entity's financial position and performance and the nature and extent of risks arising from financial instruments during the period.

The majority of financial instruments relate to contracts to buy non-financial items in line with the Gallery's expected purchase and usage requirements and in the case of these contracts the Gallery is exposed to little credit, liquidity or market risk. In the past year the Gallery has invested a proportion of its reserves in the world financial markets. Overall this will expose the Gallery to more foreign exchange risk, although its exposure to interest rate risk and liquidity risk will not have increased materially as a result of this investment.

Liquidity risk

Approximately 30-40% 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 Digital, 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 at least equivalent in total to three-quarters of the Gallery's average stock levels is held in general funds. Furthermore, the policy requires that a level of unrestricted reserves is held sufficient to fund the Gallery's operations for four months, net of Grant-in-Aid receipts. As the cash requirements of the Charity are met largely through Grant-in-Aid received from the Department of Digital, Culture, Media and Sport, financial instruments play a more limited role in creating risk than would apply to a non-public sector body of a similar size.

The Gallery has sufficient unrestricted funds to cover its current liabilities.

Credit risk

The Gallery group is exposed to credit risk of £379,000 of trade debtors – however this risk is not considered significant as major customers are familiar to the Gallery. The Gallery has recovered 99.8% of trade debtors over the last four years. Bad and doubtful debts are provided for on an individual basis. There were £3,000 of bad debt write offs in the year, (£11,000 in 2016/17).

Cash is held by the Gallery's bankers. The Gallery has not suffered any loss in relation to cash held by bankers.

Interest rate risk

The Gallery draws down its annual Grant-in-Aid allocation according to its monthly cash flow requirements; 71% of the Gallery's financial assets represents cash and investments held for these short term requirements. Of these, 34% earn interest at a floating rate and just under 10% carry fixed rates of interest. The fixed rate investments consist of investments in UK inflation linked gilts and corporate and inflation linked bonds. About 29% of the Gallery's financial assets are held in collective investment schemes with assets allocated across a diverse range of asset classes and securities. However, the Gallery has taken a conservative approach to the amount of investment income it can expect from its investments to fund its operations and is therefore not exposed to significant interest rate risk. Asset allocations across all investment portfolios are reviewed regularly and can be adjusted at short notice in response to significant changes in market conditions. Furthermore, the Gallery's budgets are reviewed and updated regularly to take account of fluctuations in interest rates to ensure that operations are not jeopardised in the event of a significant fall in investment income.

If global interest rates increased by 1%, the overall impact on the portfolio of investments would be a fall in value of around £121,000. A similar reduction in interest rates would result in an appreciation in the value of the portfolio by a similar amount.

The following table shows the interest rate profile of the Group financial assets.

	Floating rate	Fixed rate	Non-interest bearing	Real Assets	Assets earning equity return	Total	Weighted average interest rate	Weighted average period for which rate is fixed
At 31 March 2018	£000	£000	£000	£000	£000	£000	%	
Sterling	7,152	2,089	4,256	1,509	6,142	21,148	1.39	1.73 years
Other	-	-	-	-	-	-		
	7,152	2,089	4,256	1,509	6,142	21,148		
At 31 March 2017	£000	£000	£000	£000	£000	£000		
Sterling	5,232	2,727	20	1622	5,238	14,839	2.48	2.73 years
Other	-	-	-	-	-	-		
	5,232	2,727	20	1,622	5,238	14,839		

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

9. FINANCIAL RISK MANAGEMENT (continued)

Reconciled to the Consolidated Balance Sheet

	2018 £000	2017 £000
Fixed Asset Investments	6,142	5,238
Current Asset Investments	6,002	8,214
Cash at Bank	9,005	1,387
Total	21,149	14,839

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.

Where practicable, investments will be made in sterling denominated securities or in collective investment funds that have a sterling hedged share class to minimize exposure to non-sterling currencies. However, the investment portfolios include investments in overseas assets so some non-sterling currency exposure may remain, particularly where exposure is to emerging market currencies where the cost of currency hedging may be prohibitive. The residual exposure to non-sterling currencies means that the investment portfolio will benefit proportionately from any appreciation in non-sterling currencies against sterling and be negatively affected by depreciation against sterling. Overall, it is expected that the exposure to any single non-sterling currency will not be significant.

If all of the emerging market currencies depreciated against sterling by 10%, the overall impact on the portfolio of investments would be a fall in value of around £1,000. A similar appreciation of emerging market currencies against sterling would result in an appreciation in the value of the portfolio by a similar amount.

10. DEBTORS AND PREPAYMENTS

	GROUP		GALLERY	
	2018 £000	2017 £000	2018 £000	2017 £000
Debtors falling due within one year				
Trade debtors	389	552	220	452
Less provision for bad debts	<u>(10)</u>	<u>(2)</u>	<u>(10)</u>	<u>(2)</u>
	379	550	210	450
Other debtors	102	122	80	96
Prepayments	75	44	74	43
Accrued income	297	518	218	409
VAT recoverable	361	-	361	-
Amounts due from the Company	-	-	838	1,137
	<u>1,214</u>	<u>1,234</u>	<u>1,781</u>	<u>2,135</u>

Of the amount due from the Company, £764,000 (2016/17 £1,061,000) relates to the distribution under Gift Aid of profits from the Company, and the remaining balance represents the intergroup balance as at 31 March 2018.

11. STOCK

	GROUP		GALLERY	
	2018 £000	2017 £000	2018 £000	2017 £000
Goods for resale	582	606	288	290
Work in progress	<u>20</u>	<u>33</u>	<u>20</u>	<u>33</u>
	<u>602</u>	<u>639</u>	<u>308</u>	<u>323</u>

12. CURRENT LIABILITIES

a) Creditors falling due within one year

	GROUP		GALLERY	
	2018	2017	2018	2017
	£000	£000	£000	£000
Trade creditors	657	231	651	227
Other creditors	17	6	17	6
Taxation and social security	366	390	366	390
Accrued expenses	1,261	1,283	1,221	1,232
Deferred income	1,146	1,118	1,091	1,096
VAT payable	-	140	-	140
Provision for liabilities and charges	8	10	8	10
	3,455	3,178	3,354	3,101
of which creditors for capital expenditure:	16	164	16	164

b) Creditors falling due after one year

	GROUP		GALLERY	
	2018	2017	2018	2017
	£000	£000	£000	£000
Voted Loan	2,590	-	2,590	-
	2,590	-	2,590	-

The Voted Loan was provided by DCMS to fund the purchase of the East Wing freehold from the National Gallery. The loan, which was provided in March 2018, was for £2,600,000, is subject to 1.63% interest and is repayable over 20 years. The loan will be paid off in full in 2037/38. The purchase of the freehold was completed in April 2018. At 31 March 2018, the £2,600,000 was held in cash in the Gallery's bank account.

c) Movement on deferred income

	GROUP							Total
	Sponsorship	Theatre Hire, Conferences & Group Tours	Exhibition Income & Fees	Registration Fees	Donations	Membership Fees	Event Deposits	
Balance as at 1 April 2017	495	7	44	85	25	440	22	1,118
Amounts released from previous years	(495)	(7)	(44)	(85)	(25)	(440)	(22)	(1,118)
Incoming resources deferred in the current year	532	-	48	89	-	421	56	1,146
Balance as at 31 March 2018	532	-	48	89	-	421	56	1,146

The disclosure includes the deferred income related to the Group. Income has been deferred as it relates to transactions, subscriptions and deposits etc relating to more than one financial year.

13. STATEMENT OF FUNDS

	Note	Balance at 1 April 2017	Income	Expenses	Net gains/(losses)	Transfers	Balance at 31 March 2018
		£000	£000	£000	£000	£000	£000
Unrestricted funds							
Designated funds:							
	14						
Fixed Asset Fund		5,163	170	(816)	-	-	4,517
Fixed Asset Revaluation Fund		264	-	-	(4)	-	260
Investment and Contingency Fund		2,035	-	(9)	2	49	2,077
Deferred Projects Fund		233	-	(84)	-	105	254
Total designated funds		7,695	170	(909)	(2)	154	7,108
General Funds (Working Capital)	14	300	16,783	(17,040)	-	257	300
Total unrestricted funds		7,995	16,953	(17,949)	(2)	411	7,408
Restricted funds							
	15						
Fixed Asset Fund		20,710	-	(1,539)	-	333	19,504
Fixed Asset Revaluation Fund		62,404	-	-	(5,018)	-	57,386
Capitalised Collection Fund		31,522	333	-	-	64	31,919
		114,636	333	(1,539)	(5,018)	397	108,809
Portrait Fund		9,242	39	-	418	9	9,708
Heritage Lottery Fund/Department for Digital, Culture, Media & Sport Catalyst: Endowment		12	-	-	(3)	(9)	-
Grants and Donations Fund		1,703	4,508	(831)	-	(808)	4,572
Dame Helen Gardner Bequest Fund		8	-	-	-	-	8
		10,965	4,547	(831)	415	(808)	14,288
Total restricted funds		125,601	4,880	(2,370)	(4,603)	(411)	123,097
Total Funds		133,596	21,833	(20,319)	(4,605)	-	130,505

Transfers between reserves relate to matching of expenditure incurred in earlier years to the relevant restricted and unrestricted funds as well as the purchase of fixed and heritage assets, and funding of projects.

	As at 1 April 2017	Unrealised gains/(losses) under fair value	Realised gains/(losses) under fair value	As at 31 March 2018	Reserve/Fund excl fair value as at 31 March 2018	Reserve/Fund incl fair value as at 31 March 2018
Unrestricted						
General Fund	1,253	2	-	1,255	(955)	300
Restricted						
Portrait Fund	2,310	418	-	2,728	6,980	9,708
Heritage Lottery Fund/Department for Digital, Culture, Media & Sport Catalyst: Endowment	5	(3)	(2)	-	-	-

14. DESIGNATED FUNDS

FIXED ASSET FUND

This fund represents the net book value of all the Gallery's furniture and equipment, (mainly IT equipment), and plant and machinery.

FIXED ASSET REVALUATION FUND

This fund represents the indexation and revaluation increases on the plant and machinery assets held in the Unrestricted Fixed Asset Fund.

INVESTMENT AND CONTINGENCY FUND

This fund represents a designation of surpluses to be invested in projects in accordance with the reserves policy. Transfers represent the year-end surplus/(deficit) transferred to this fund.

DEFERRED PROJECTS FUND

This fund represents underspends generated this year which are to be employed in projects next year.

The projects include marketing, future exhibition planning, acquisitions and Gala expenses.

The Fund includes funding earmarked for future acquisitions as well as exhibition related spend. Transfers represent the underspends identified in this year set aside for projects to be undertaken in future years.

GENERAL FUND

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 £300,000 in the General Reserve equates in total to at least three-quarters of the average stock levels held at the Gallery.

15. RESTRICTED FUNDS

FIXED ASSET FUND

This fund represents the net book value of the Gallery's restricted tangible assets. These assets consist of the main Gallery building - including the Ondaatje extension and the Duveen Wing - the Orange Street complex and the leased East Wing.

FIXED ASSET REVALUATION FUND

This fund represents the indexation and revaluation increases on the land and buildings assets held in the Restricted Fixed Asset Fund.

CAPITALISED COLLECTION FUND

This fund represents the value of Heritage Assets funded by restricted donations and Grant-in-Aid allocated to capitalised acquisitions for Collections. (For an explanation of the transfers, see Grants and Donations Fund below).

PORTRAIT FUND

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). During the year the funds within the Catalyst:Endowment Fund were subsumed into the Portrait Fund.

HERITAGE LOTTERY FUND/DEPARTMENT FOR DIGITAL, CULTURE, MEDIA AND SPORT CATALYST: ENDOWMENT FUND

The Heritage Lottery Fund/Department for Digital, Culture, Media & Sport Catalyst: Endowment was a match funding scheme offered to cultural organisations to assist them in building endowments from which they can earn interest. The terms of the Catalyst:Endowment required the Gallery to raise £1 million by June 2016. During this period the scheme would match this fund raising £1:£1. The Gallery successfully raised the required £1 million by the end of the 2014/15 financial year and received the final instalment of match funding from HLF of £100,000 in 2015/16. The brought forward figure for income includes both the amount the Gallery had raised to date and the match funding drawn down from the scheme. The funds raised through the scheme were to be used to support the Portrait Fund and this was executed in the year when the Catalyst:Endowment Fund was subsumed into the Portrait Fund.

GRANTS AND DONATIONS FUND

This fund represents grants and donations given for a specified purpose. The Grants & Donations fund includes the Inspiring People fund as well as other restricted grants and donations for acquisitions and other projects. Transfers on this occasion represent Heritage Assets purchased with restricted income transferred to the Capitalised Collection Fund.

DAME HELEN GARDNER BEQUEST

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

16. ANALYSIS OF NET ASSETS BETWEEN FUNDS

Fund balances at 31 March 2018 are represented by:

	Unrestricted		Restricted £000	Total £000
	Designated £000	General £000		
Fixed Assets	4,777	-	76,889	81,666
Heritage Assets	-	-	31,919	31,919
Investments	-	-	6,142	6,142
Current Assets	2,331	3,652	10,840	16,823
Current Liabilities	-	(3,352)	(103)	(3,455)
Long term Liabilities	-	-	(2,590)	(2,590)
Total Net Assets	7,108	300	123,097	130,505

17. FINANCIAL COMMITMENTS

As at 31 March 2018 the Gallery had total minimum lease payments under non-cancellable operating leases as follows:

	2018		2017	
	Land and buildings	Other Operating Leases	Land and buildings	Other Operating Leases
	£000	£000	£000	£000
Less than one year	140	4	153	8
One to five years	280	-	472	4
Greater than five years	-	-	195	-
	420	4	820	12

18. CAPITAL COMMITMENTS

	2018 £000	2017 £000
Capital expenditure contracted for but not provided in the accounts	2,963	51
Capital expenditure authorised but not contracted for	110	3,215

Capital expenditure contracted for but not provided for relates to the purchase of the East Wing Freehold in April 2018 for £2,600,000.

19. CASH FLOW INFORMATION

	2018 £000	2017 £000
Cashflow from operating activities		
Net income/(expenditure) for year	1,931	258
Less: Dividends, interest and rent from investments	(2)	(10)
Donated acquisitions	(333)	(481)
Add: Net (gain)/losses on investments	(417)	(1,208)
Investment management fees	47	51
Depreciation and impairment of tangible fixed assets	2,355	2,342
(Profit)/loss on disposal of tangible fixed assets	-	-
(Increase)/ Decrease in stock	37	6
(Increase) / Decrease in debtors	20	(144)
(Decrease) / Increase in creditors	2,987	503
Increase / (Decrease) in deferred income	28	(127)
Net cash flow provided by/(used in) operating activities	<u>6,653</u>	<u>1,190</u>
Cashflow from investing activities		
Payments to acquire tangible fixed assets	(715)	(2,153)
Payments to acquire investments	(546)	(2,040)
Receipts from sales of investments	2,224	1,260
Dividends, interest and rent received from investments	2	10
	<u>965</u>	<u>(2,923)</u>
Cashflow from financing activities	-	-
Change in cash and cash equivalents in the year	7,618	(1,733)
Cash and cash equivalents at 1 April 2017	1,387	3,120
Cash and cash equivalents at 31 March 2018	<u>9,005</u>	<u>1,387</u>
Cash and cash equivalents consists of:		
Cash at bank and in hand	<u>9,005</u>	<u>1,387</u>

20. 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 principal activities are Retail, Gallery Hire and running the Gallery's catering franchise.

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

	2018	2017
	£000	£000
<u>Profit and loss account</u>		
Turnover	3,007	3,575
Cost of sales	(990)	(1,291)
Gross Profit	<u>2,017</u>	<u>2,284</u>
Administrative expenses	(1,253)	(1,227)
Trading Profit	<u>764</u>	<u>1,057</u>
Interest receivable	-	4
Profit on Ordinary Activities Before Taxation	<u>764</u>	<u>1,061</u>
Taxation	-	-
Profit on Ordinary Activities After Taxation	<u><u>764</u></u>	<u><u>1,061</u></u>

Company turnover includes the earnings from the three business lines in Note 2c and also cloakroom and locker income as noted in Note 2d.

Balance sheet

Tangible fixed assets	-	-
Current assets	940	1,214
Creditors	(176)	(153)
Payment under Gift Aid to Gallery	(764)	(1,061)
Net assets	<u><u>-</u></u>	<u><u>-</u></u>
Share capital and reserves	<u><u>-</u></u>	<u><u>-</u></u>

Reconciliation of results of the Company to the Consolidated Statement of Financial Activities.

	2018	2017
	£000	£000
Turnover	3,007	3,575
Intra group transactions	-	-
Trading income included within SOFA	<u>3,007</u>	<u>3,575</u>
Cost of sales	(990)	(1,291)
Administrative expenses	(1,253)	(1,227)
Taxation	-	-
Intragroup transactions	1,509	1,600
Trading costs included within SOFA	<u>(734)</u>	<u>(918)</u>
Interest receivable	-	4
Included in investment income per SOFA	<u><u>-</u></u>	<u><u>4</u></u>

21. CONTINGENT LIABILITIES

At the balance sheet date, the Gallery had no contingent liabilities.

22. POST BALANCE SHEET EVENTS

The Prime Minister appointed Roger Blundell as a Trustee to the Board of the National Portrait Gallery and Chair of the Audit & Risk Committee, with effect from 2 April 2018, for a four year term, ending on 2 April 2022.

The Gallery purchased the freehold of the East Wing from the National Gallery for £2,600,000 in April 2018. The purchase was funded by a Voted Loan from DCMS for the same amount. The loan is repayable over 20 years with an interest rate of 1.63%. The purchase brings to an end the leasehold arrangements with the National Gallery.

The financial statements were approved by the Accounting Officer and Trustees on 5 July 2018 and authorised for issue on the date shown on the audit certificate. There were no other events after the balance sheet date up to the date the accounts were authorised for issue.

23. RELATED PARTY TRANSACTIONS

The National Portrait Gallery's sponsor, the Department for Digital, Culture, Media and Sport, is regarded as a related party. During the year, the Gallery has had various transactions (greater than £500) with the Department and with other entities for which the Department is regarded as the parent Department as follows: British Broadcasting Corporation (BBC), National Gallery, Tate Gallery, the Victoria & Albert Museum, Science Museum, British Library, Imperial War Museum and Natural History Museum. The Gallery also received grants from the Heritage Lottery Fund. The Gallery has a ten year licence agreed with Tate for the provision of storage for the Gallery's collections, which commenced in 2012.

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, under normal business terms, with the following organisations in which either a Trustee or a member of management was regarded as having an interest:

<u>Trustee</u>	<u>Related party</u>	<u>Position held at related party</u>	<u>Transaction and balance details</u>
Dr Brian Allen	Hazlitt Gooden Fox	Chairman of Hazlitt Group	£11,938 of purchases of art works. £10,800 for corporate membership. Nil balance at year end.
Dr Rosalind Blakesley	Fitzwilliam Museum, Cambridge	Ex officio Syndic of the Fitzwilliam Museum	£1,979 for travel expenses, loan preparation and academic research. Receipt of £30 as reimbursement of travel expenses for the NPG Director. Nil balance at year end.
Rob Dickins CBE	Victoria & Albert Museum	Trustee	£4,854 for image rights for NPG exhibitions. £302 for loan of items for exhibitions. £576 balance to pay at year end.
Sir Michael Hintze	Hintze Family Charitable Foundation	Trustee	£83,333 donation. Nil balance at the year end.
Rachel Wang	Chocolate Films	Director	Fees of £2,700 for filmmaking. Nil balance at year end.
Rachel Wang	Creative Industries Federation	Council Member	£2,592 for annual membership and conference attendance. Nil balance at year end.
Christopher Le Brun	Royal Academy of Arts	Trustee and Director	Reproduction fee of £78. Nil balance at year end.

Independent Members (Investment Committee)

Anthony Brooke	The Portrait Trust	Trustee	The Trust provided the Gallery with a grant of £57,000 to fund a Creative Connections programme. The Gallery provided the Trust with a grant of £20,000. The Trust paid the Gallery administrative fees of £3,199. Nil balance at the year end.
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Gallery Management

Dr Nicholas Cullinan	The Romney Society	President	£18 purchase for Gallery membership of the society. £308 reimbursement of travel costs to Director for a lecture to the Society. Nil balance at the year end.
Pim Baxter	Association of Leading Visitor Attractions	Member	£3,449 for annual membership and £374 for benchmarking data. Nil balance at year end.
Nicola Saunders	Association for Cultural Enterprises	Trustee	£970 of purchases for training courses, study days and ACE conference attendance. Nil balance at year end.

Trustees: Mr Bjorn Savén donated £800,000 towards the Inspiring People project. Sir William Proby purchased a Patrons membership for £1,525. Dr Brian Allen paid £10,000 at the Portrait Gala. Allegra Berman paid £1,000 in 2017/18 towards the 2017 Portrait Gala. The husband of Dr Joanna Kennedy purchased a Patrons membership for her for £1,525. Dr Andrew Roberts paid £85 for Gallery membership and £1,200 at the Portrait Dinner. David Ross paid £12,600 at the Portrait Dinner. Dr Brian Allen paid £6,000 at the Portrait Dinner. Sir Michael Hintze made a donation of £1,200 towards the Portrait Dinner. Sir Peter Stothart paid £600 at the Portrait Dinner, as too did Rachel Wang. Allegra Berman is an employee of HSBC and HSBC Private Bank (Luxembourg) is the custodian bank for the Gallery's and Portrait Fund's reserves under management with Partners Capital LLP.

Independent Members: Jeremy Sillem - an independent member of the Investment Committee - is a shareholder with Partners Capital LLP. Partners Capital LLP are the Gallery's investment advisors with £12.1 million of the Gallery's reserves under management. Neil Spence, a co-opted, independent member of the Audit and Compliance Committee claimed £260.10 in travel expenses to attend Committee meetings.

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