

MUSEUMS AND GALLERIES ACT 1992

Account, of the National Portrait Gallery prepared pursuant to Act 1992, c.44, para 9(7) for the year ended 31 March 2003, together with the Report of the Comptroller and Auditor General thereon. (In continuation of House of Commons Paper No. 1138 of 2001-2002.)

Presented pursuant to Museums and Galleries Act 1992, c. 44, para. 9(8).

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# National Portrait Gallery Account 2002-2003

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# Contents

	<b>Page</b>
Foreword and Annual Report	2
Annex to the Foreword	12
Statement of Trustees' and Directors' responsibilities	13
Statement on Internal Control	14
The Certificate and Report of the Comptroller and Auditor General	15
Summary Income and Expenditure Account	17
Statement of Financial Activities	18
Balance Sheet	20
Cash Flow Statement	21
Notes to the Accounts	22

## Foreword and Annual Report

### Status

The Museums and Galleries Act 1992 established the corporate status of the Board of Trustees of the National Portrait Gallery. This act superseded the Treasury Minute of 2 December 1856 by which the Gallery was originally established. The National Portrait Gallery is recognised as an exempt charity under the provisions of the Charities Act 1993 and thus is not liable to corporation tax under Section 505 ICTA 1988.

### History

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 from the Chandos collection. From its earliest days the Gallery has also collected extensive reference material relating to portraiture which has developed into a unique national resource. In the 1960s the Photographs Collection was revitalised and in 1969 portraits of living people were for the first time admitted to the collection. As well as a permanent display of portraiture from the sixteenth century to the present day, the Gallery provides a wide-ranging variety of special temporary exhibitions and an important education service designed to meet the needs of schools, colleges and visitors in general.

The Primary Collection of paintings, sculpture, miniatures, drawings, prints and photographs contains some 10,300 portraits of the most famous people in British history. Of these more than 4,000 are paintings, sculptures and miniatures, approaching 60% of which are regularly displayed. In addition, there are more than 6,000 works on paper, shown on a rotating basis of about 300 items a year. Normally items not on display can readily be made available for viewing by arrangement with the Collections Manager. The Collection is also made widely available via the Woodward Portrait Explorer in the IT Gallery and by CD-Rom, on the Internet and through a variety of publications.

In addition, the Gallery holds Reference Collections as a national resource; they form an image bank of the nation's famous and less famous faces. They are used for study and exhibition, and have been extensively reproduced in books and other publications. There are more than 300,000 portraits in the Reference Collections, divided between the Archive Collection of about 80,000 items, mainly prints but also 2,000 drawings, 60 paintings and 100 sculptures, almost all relatively modest in nature, and the Photographs Collection of more than 220,000 photographs and historic negatives. Increasingly these images are being made available on the internet. In addition the Library contains 35,000 books and some manuscripts.

The collection has been housed at St Martin's Place since 1896. The building 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, in 2000, was the Ondaatje Wing, providing additional gallery space, improved visitor facilities and a new lecture theatre, funded by Sir Christopher Ondaatje, the Heritage Lottery Fund and a number of donors.

The Gallery has regional partners at Montacute House in Somerset, Beningbrough Hall in Yorkshire (both National Trust properties) and at Bodelwyddan Castle in Clwyd (by arrangement with Bodelwyddan Castle Trust).

### Organisation and administration

The Gallery is a Non-Departmental Public Body supported by the Department for Culture, Media and Sport. A Board of sixteen trustees, appointed by the Prime Minister, meets quarterly. There is a committee of the Board which covers audit and compliance. The Gallery also has a development board to support fundraising initiatives. A list of Trustees during 2002-2003 and up to the date on which the accounts were signed is at page 11. The Director, whose appointment is made by the Trustees and approved by the Prime Minister, manages the day-to-day operations of the Gallery with the support of the Management Team.

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

## Objectives and policies of the Gallery

The overall aims of the Gallery, as defined by 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; and
- 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 maximise the self-generated income required to supplement government grants. Income generated from fundraising activities such as sponsorship and corporate and individual membership schemes as well as publishing and trading activities provide additional support for Gallery activities. Grant-giving bodies furnish welcome support for new projects. A Development Appeal Fund (most recently applied to the Ondaatje Wing development) was established in 1989 for major building work.

There have been no fundamental policy changes for the Gallery in 2002-2003.

The Gallery does not charge for general access. Temporary exhibitions are partially funded by sponsorship, by admission charges for two exhibitions a year in the Wolfson Gallery, and by retail sales associated with the exhibitions. Without non-government funding, the programme would have to be severely curtailed.

The National Portrait Gallery is an equal opportunities employer. The development of working practices and a working environment which facilitates this, in particular with regard to the employment of disabled persons, are key objectives. The Gallery has a comprehensive policy and training programme aimed at securing the health, safety and welfare of its employees.

Gallery employees are involved in the development of policies, strategic plans and performance targets through corporate planning and performance management procedures. Management meetings and newsletters provide a regular means for the consideration of issues and dissemination of information to staff throughout the year. Whitley Council meetings provide a forum for discussion of staff issues. The Gallery continues to receive valuable support from volunteers, especially in the Archive and Library.

The Gallery has a Funding Agreement with the Department for Culture, Media and Sport which sets out performance targets for the three years 2001-2002 to 2003-2004. Targets are reviewed annually and re-determined where appropriate. Reference is made to both the original and latest targets throughout the Foreword and the 2002-2003 achievement against all core original targets (with comparators for previous years) is detailed in the Annex. A new Funding Agreement for the years 2003-2004 to 2005-2006, incorporating six core quantitative and three qualitative performance indicators relating to audiences, was signed in April 2003.

## Review of activities

### The Quinquennial Review

In 2001-2002 the Department for Culture, Media and Sport published the findings of its Quinquennial Review of the National Gallery and the National Portrait Gallery. The report encouraged the Gallery to make modest investment in developing audiences, collections management and research. The objectives within the corporate plan for 2002-2003 largely constituted actions arising from the Review. The main consequence was the overdue strengthening of staffing in the areas of Education, Collections Management, Research and Documentation, Management and Administration, and Fundraising.

### Audiences and access

1.32m visitors came to the Gallery in 2002-2003. The Gallery was pleased to have sustained a similar overall figure to the exceptional 1.48m numbers in 2001-2002 (during which its most popular exhibition to date, *Mario Testino: Portraits*, had opened) and to have exceeded once again the previous record of 1.22m achieved during 2000-2001 when the Ondaatje Wing opened. The 2002-2003 target in the original Funding Agreement agreed with the Department for Culture, Media and Sport was 1.1m (revised in-year to 1.3m). Including the 202,000 visits made to regional partners (150,000 in 2001-2002), visitor numbers were 1.52m, compared to 1.63m in 2001-2002.

At the Gallery's regional partner, Bodelwyddan Castle, the imaginative scheme developed with the architects, muf art/architecture, was installed for its opening in April 2003. The project was generously supported by the Heritage Lottery Fund and capital funding from the Department for Culture, Media and Sport. The scheme has created three themed rooms containing new permanent interactive displays to enhance the visitors' enjoyment and understanding of the portraits on loan to the Castle and has also provided high-quality temporary exhibition space.

The main focus of the year at St Martin's Place has been the complete renewal and imaginative redisplay of the Regency galleries, with enhanced interpretation and IT facilities, working with Piers Gough of CZWG Architects and entirely funded by private donors, trusts and foundations, and the Heritage Lottery Fund. The Regency in the Weldon Galleries (named in recognition of the generosity of Anthony Weldon) opened in May 2003 to great acclaim in the press and is the culmination of the sequence of gallery renewals begun in 1993.

The exhibition programme for 2002-2003 commenced with *Mario Testino: Portraits*, which continued to attract high visitor numbers as it had in 2001-2002. The refurbishment of the Regency galleries offered a wonderful opportunity to tour a selection of Regency paintings to America and to display *George Romney, 1734-1802*, a collaboration with the Walker Art Gallery, Liverpool. The major winter show was *Americans*, a touring exhibition from the National Portrait Gallery, Washington DC, also creating the opportunity, funded by JPMorgan, the exhibition's sponsor, and Arts & Business, for a series of photographic workshops for schools, including a close link with the Great Ormond Street Hospital School. The spring 2003 exhibition, sponsored by Reuters and Classic FM, focused on one of the first great female photographers, *Julia Margaret Cameron*, and was complemented by a display of *Iconic Women in the Press*, captured by Reuters' photographers.

Other exhibitions in the programme for the year included *Saving Faces: Portraits by Mark Gilbert*, a remarkable collaboration between the painter and the maxillofacial surgeon Iain Hutchison, which had started in 2001-2002, the continually popular *BP Portrait Award*, *Beatrix Potter to Harry Potter: Portraits of Children's Writers*, which appealed to both adult and young visitors, the last year of the annual *John Kobal* photographic competition and the well-attended *Mad, Bad and Dangerous: The Cult of Lord Byron*. The year ended with *You Look Beautiful Like That*, photographs by the two West African studio photographers of Seydou Keïta and Malick Sidibé, which continued into 2003-2004. A varied temporary display programme continued throughout the year in the Studio, Book Shop and Balcony Galleries and other spaces within the Gallery, including *Local Heroes* which displayed photographs taken by school and community groups alongside images of New Yorkers in the aftermath of September 11, 2001, a celebration of the Queen's Golden Jubilee and the display of a commissioned work together with four new double portraits by David Hockney.

Over the years the Gallery has developed a much respected touring programme throughout the UK and increasingly abroad. During 2002-2003, nine touring exhibitions were seen at seventeen venues. The Gallery remains a significant lender to museums and galleries both abroad and in the UK; loans (which may comprise several items) were made in 2002-2003 to exhibitions and displays organised at a total of 40 venues in the UK and 17 venues outside the UK. Furthermore a total of 58 long-term loans were maintained with a wide range of museums and other public institutions. In all 115 individual loans were made, compared to 72 in 2001-2002.

1,621 people visited the Heinz Archive and Library to pursue research and staff responded to more than 2,800 portrait-related queries (a similar number to 2001-2002). The Archive and Library embarked on several important projects to improve access to its collections. Funding from the Department for Culture, Media and Sport enabled over 1,000 mainly eighteenth-century satirical and portrait prints, including a fine set of Gillray caricatures, to be catalogued and digitised. A project to research the collections of mezzotints by Alexander Browne, Richard Tompson and John Smith commenced in April 2002, with part-funding from the Paul Mellon Centre. In January 2003 a Records Manager was appointed to undertake an institution-wide records survey that will enable the implementation of effective manual and electronic records management in line with the requirements of the Freedom of Information Act and the *Modernising Government White Paper*.

The Education Department continued to offer learning opportunities for a wide range of audiences, including school groups, adults, academic groups, families and visitors with disabilities. There have been several innovative developments including the establishment of video-conferencing and *Self-Portrait UK*, which, in partnership with the Arts Council, Channel 4 and Media 19, encouraged people to engage in self-portraiture. 2002-2003 saw an increase in activities with the arrival of two staff, an Access Officer, part-funded for three years by the John Ellerman Foundation, and a Public Programmes and Adult Education Officer.

The programme of lectures, conferences and gallery talks continues to be popular. There were conferences on American portraiture, Byron and Black and Asian representation in portraiture and talks and discussions to complement the BBC's *Great Britons* series. Attendance has grown for the Thursday evening lecture series which have included regular lectures by eminent contemporary photographers, bringing new audiences to the Gallery. Many talks are now accompanied by British Sign Language interpretation.

The number of on-site learners served by classes, lectures and other activities during 2002-2003 was 45,000, in line with the revised target agreed with the Department for Culture, Media and Sport (decreased in-year from the original target of 52,000, which had been based on estimated figures).

The number of hits to the Gallery's website during 2002-2003 was 6.3m or an average of 121,000 per week, 22% more than the 99,000 figure for 2001-2002, and well above both the original target of 2.75m and the latest target of 4.5m agreed in-year with the Department for Culture, Media and Sport.

The funding from the Department for Culture, Media and Sport for cataloguing has also made available online over 4,000 Bassano negatives taken between 1920 and 1923 and an outline listing of all the Gallery's major photographic holdings has been posted on the website. Enhanced cataloguing and scanning rates have helped to deliver over 9,000 additional portraits on the *Woodward Portrait Explorer*, which now has nearly 15,000 sitters and artists represented in 23,000 portraits, and over 10,000 more portraits have been added to the online illustrated search mechanism, which now has over 43,000 portraits available. It should be noted that, as the Gallery has multiple images of some sitters, it is not seeking to make every image it holds available on the internet.

### **Collections – acquisitions and management**

The Gallery continues its policy of acquiring and commissioning portraits of people who have made a significant contribution to the history and culture of our nation. Works of art are increasingly expensive and the generosity of individual donors and grant-giving bodies such as the Heritage Lottery Fund and the National Art Collections Fund is essential to supplement the acquisitions allocation which has not been increased in twenty years, a period in which portrait prices have broadly tripled.

The outstanding acquisition of the year was John Singer Sargent's great full-length portrait of the Prime Minister, Lord Balfour, painted in 1908 for the Carlton Club. This was made possible only by the continuing generosity of the Art Fund, which made up the remaining balance on the appeal at the last moment, so preventing the export of this highly significant work. The many supporters of the appeal were led by a munificent donation from the Gallery's long-standing supporter, Sir Christopher Ondaatje.

The Art Fund, together with the National Heritage Memorial Fund, made vital contributions towards a selection of important negatives and photographs by Lewis Carroll of Alice Liddell and her sisters, the inspiration for the classic book *Alice's Adventures in Wonderland*; the thirteen items were acquired jointly with the National Museum of Photography, Film and Television in Bradford. Other important photographic acquisitions included a choice selection of vintage prints of literary and art figures from the early 1920s by the photographer Walter Benington, and photographs taken earlier in the century of the architects Mewes and Davis and the artist and designer Claud Lovat Fraser. Contemporary photographs were represented by Maud Sulter's imaginatively staged portrait of the cultural critic Bonnie Greer.

As usual a wide variety of late nineteenth- and twentieth-century portraits was acquired, including an early drawing of the sculptor Henry Moore by his fellow student Robert Lyon (purchased with help from the Henry Moore Foundation) and Faith Tolkien's head of the statesman Roy Jenkins (Lord Jenkins of Hillhead). The Gallery is most grateful to the families of the sitters and artists who have given portraits, such as Graham Sutherland's painting of the newspaper proprietor Cecil Harmsworth King, and for loans from private collections, such as an L.S. Lowry self-portrait and Joseph Nollekens's fine bust of the Whig statesman Charles James Fox. Dr Kenneth Garlick, retired Keeper of Western Art at the Ashmolean Museum, Oxford, donated his substantial archive of photographs and correspondence relating to his research and catalogue raisonné of the portraits of Sir Thomas Lawrence.

Two successful commissions were completed: the composer and pianist Thomas Adès by the BP Portrait Award prizewinner Philip Hale, with funding from the Jerwood Foundation, and Sir Brian Urquhart, former Under-Secretary General of the United Nations, by the distinguished American painter Philip Pearlstein. JPMorgan made a generous donation in order to initiate a Fund for New Commissions. The Gallery was very grateful to receive as a gift from David Hockney his commissioned watercolour of Sir George and Lady Christie of Glyndebourne.

Efforts continue to acquire William Parry's great historical portrait, *Omai, Sir Joseph Banks and Dr Daniel Solander*, c. 1775-6, jointly with the Captain Cook Memorial Museum, Whitby, and the National Museums and Galleries of Wales, with generous support from the Art Fund and private benefactors.

In the field of conservation energies were focused on the two major projects to refurbish the Regency galleries and Bodelwyddan Castle. Over a hundred Regency paintings underwent varying degrees of restoration and over twenty-five sculptures were cleaned; new fixing techniques were developed to attach the works to their plinths.

### **Research and scholarship**

A major achievement was the completion of a long-term project begun in 1996, in collaboration with Oxford University Press, whereby more than ten thousand portraits were selected to illustrate the *New Dictionary of National Biography*, to be published in print and online formats in 2004.

During 2002-2003, the Gallery was able to take forward a number of research projects in co-operation with external partners. The Leverhulme Trust is funding three one-year post-doctoral research fellowships in the history of portraiture; Dr Matthew Craske completed his fellowship on servants' portraits in July 2002 and in October Jan Marsh started work on the representation of racial diversity in nineteenth-century Britain. The Paul Mellon Centre continued to support research for the *Mid-Georgian Portraits* catalogue raisonné and work has commenced on a catalogue devoted to later Stuart portraits. Agreement has been reached by the Gallery's Education department and the University of Westminster to establish a research partnership, with the aim of creating a range of projects based on press photography, initially over a three-year period. The Director, curatorial and education staff lectured nationally and internationally and contributed papers to symposia and to a large number of publications.

### **Financial results**

#### **Presentation**

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

The Accounts are presented in accordance with the reporting requirements of the Statement of Recommended Practice (SORP), *Accounting and Reporting by Charities*. As required by the SORP, the Statement of Financial Activities shows total incoming resources for the year, including those for capital projects. Although these capital receipts are removed in the Income and Expenditure Statement, the statement still includes income received in advance for projects occurring in 2003-2004 and beyond. The Statement of Financial Activities apportions the cost of the directorate, support services (utilities, maintenance, communications and office expenses) and depreciation across the various headings of cost of generating funds and charitable expenditure.

#### **Financial performance**

In spite of the difficult economic and international climate, 2002-2003 has been another sound year in terms of meeting internal financial targets as well as the performance targets agreed with the Department for Culture, Media and Sport. The continued success of the *Mario Testino: Portraits* exhibition has allowed the Gallery to designate funds in an Investment and Contingency Fund to finance one-off expenditure, as described below in the Reserves Policy.

#### **Statement of financial activities**

After an increase of 6% in revenue Grant-in-aid in 2001-2002, government funding is to remain at cash standstill for the subsequent two years through to 2003-2004; however the Gallery received two welcome project grants in 2002-2003 for refurbishment at Bodelwyddan Castle and cataloguing the collection. As a result of the reduction in visitors from the exceptional numbers in 2001-2002, Grant-in-Aid per visitor to St Martin's Place increased from £3.70 per visitor in 2001-2002 to £4.35 in 2002-2003. Including regional partners but excluding website visitors, this figure becomes £3.77 per visitor (£3.35 in 2001-2002). The Grant-in-aid per visitor target agreed with the Department for Culture, Media and Sport includes website and regional partner visitors; the performance for

2002-2003 was £0.74 (against an original target of £1.37, a revised target of £1.09 and an outturn of £0.81 in 2001-2002). Hence the National Portrait Gallery continues to be highly effective in terms of Grant-in-aid per visitor.

The generation of non-Grant-in-aid income remains vitally important. In 2002-2003, 54% of expenditure (including capital expenditure and excluding depreciation and grants received in advance) was funded from self-generated income, representing 36% of total income (net of trading and fundraising costs and excluding income for building projects and donated acquisitions). Income from exhibition sponsorship and charges for entry to temporary exhibitions vary considerably from year to year, being highly dependent upon the nature and popularity of the exhibitions. The Romney exhibition in the Regency galleries meant that there were three rather than the usual two charging exhibitions during the year, hence income relating to exhibitions (including sponsorship) rose by 16%.

Trading income, which had been boosted by *Mario Testino: Portraits* in 2001-2002, still managed an increase of 3%, due to the success of the Great Britons book, published to coincide with the popular BBC series, and from receipts for the *New Dictionary of National Biography*; net income decreased from £0.6m to £0.5m but represented a significant uplift from the level prior to 2001-2002. Other areas of income benefiting from the *Testino* opening in 2001-2002 inevitably decreased in the following year: Gallery hire by 22% and the catering franchise by 6%, yet these figures are still in excess of previous levels achieved. The difficult economic climate was felt most keenly in corporate fundraising with a reduction of 32% experienced in corporate members income; however the shortfall was covered by over-target corporate sponsorship, which accomplished the total of the previous year.

Grants and restricted donations totalling £2.1m funded a variety of projects, described in the Review of Activities; of this £0.8m related to the Regency galleries. A total of £53,000 was received for Education projects, compared to £45,000 in 2001-2002. Donations for acquisitions included £570,000 for the portrait of Lord Balfour by Sargent and £150,000 from JPMorgan to start a new commissions fund. The estimated value of donated objects was £289,000 (£114,000 in 2001-2002). Individual giving income from Patrons and Members increased by 16%. The Gallery is continuing to seek ways to increase sponsorship and donations through a variety of initiatives. Overall, income for current operations (i.e. excluding funding for fixed assets) increased by 2%.

Overall resources expended increased by 8% compared to 2001-2002; as a result of the new posts described under the Quinquennial Review section, salaries increased by 15% and, as a proportion of total resources expended, increased from 42% to 52%.

### Balance sheet

The brought forward Unrestricted Funds balance of £9.9m was increased by £0.9m during the year. The closing balance was £10.8m of which £8.1m represents the capital assets funded from self-generated income and £1.8m has been designated for an investment fund and for projects to be undertaken in 2003-2004. In order to reflect the fact that acquisitions for the collection are inalienable and therefore restricted, the £0.4m value of internally funded acquisitions has also been designated and transferred to Restricted Funds. Retained surpluses have been maintained at the level of £0.9m agreed by Trustees within the reserves policy below.

The brought forward Restricted Funds balance of £41.1m was increased by £1.4m. The closing balance was £42.5m of which £40.1m represents the vested assets and the capital assets financed by the Development Appeal Fund and the Heritage Lottery Fund and £2.1m represents donations for capitalised acquisitions (including the value of donated objects). The balance of £0.3m represents funds donated and available for the restricted purposes of grant-funded projects to be completed and the acquisition of specified categories of portraits.

The principal fixed assets represent the depreciated value of the St Martin's Place and the Orange Street buildings which were re-valued at 31 March 2003. In accordance with a government directive, the Gallery has adopted a policy of using National Statistical Office indices to adjust the depreciated values of all assets in the years when they are not re-valued.

## Performance against targets

The Annex should be consulted for analysis of performance against core targets agreed with the Department for Culture, Media and Sport.

## Investment powers

The Gallery's investments are governed by the Trustee Act 2000.

## Payment of creditors

The National Portrait Gallery follows the Treasury's guidance on payment of invoices. In 2002-2003 the Gallery paid approximately 72% of its invoices within the target of 30 days, a slight improvement on 70% in 2001-2002; the Gallery will aim to improve performance further in 2003-2004.

## Reserves policy

The Trustees have performed their annual review of the Gallery's needs for reserves in line with the guidance issued by the Charity Commission. Between approximately two-thirds and three-quarters of annual net income (64% in 2002-2003 and 75% projected for 2003-2004) is received as recurrent Grant-in-aid from the government. The balance is derived from self-generated income which is mostly volatile and vulnerable to economic downturn. The Gallery has neither endowment nor undesignated bequest funds.

Trustees have therefore designated an Investment and Contingency Fund to finance one-off expenditure which

- increases future income or the efficiency of operations;
- addresses risks identified on the Gallery's risk register; and/or
- acts as bridging to future recurrent increases to income.

£0.7m of the £1.2m balance as at 31 March 2003 has been allocated for these purposes in 2003-2004. Of the balance remaining at least £0.25m is held in order to smooth fluctuations on baseline expenditure which needs to be averaged across several years, such as the exhibitions programme, and to take advantage of unexpected opportunities. The fund is replenished with one-off unrestricted income and with any annual surplus in excess of the balance maintained on the General Funds.

The retained surpluses within General Funds need to be sufficient to cover the Gallery's cashflow requirements, unforeseen expenditure and fluctuations in income and capital charging (described further in Capital Charging below). The balance of £0.9m equates to three-quarters of the Gallery's average stock levels and five per cent of its annual expenditure. The Gallery's annual budgets are balanced in order to maintain this level of reserve.

The level of retained surpluses is monitored and reviewed by Trustees four times a year. The reserves policy is reviewed by Trustees once a year.

## Related parties

The Gallery's sponsor, the Department for Culture, Media and Sport, is regarded as a related party. During the year, the Gallery has had various material transactions with the Department and with other entities for which the Department is regarded as the parent Department. A summary of these and other related party transactions during the year is set out in Note 21.

## Capital charging

From 2003-2004, following the Government's full introduction of "resource budgeting" the Gallery will be required to manage its net expenditure, including its capital charges on assets (costs of capital as described in Note 11, depreciation and other diminutions of value on fixed assets) and other non-cash costs such as provisions within an overall resource allocation from the Department for Culture, Media and Sport.

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

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

As capital charges are affected by the annual revaluation to fixed assets, there is a risk that the actual capital charges will exceed the original estimates (both the actual and projected indexation calculations use indices provided by the Treasury); any overspend on non-cash costs could reduce cash Grant-in-aid in the following year. However, in recognition of this risk, the Department has secured a safeguard for the Museum and Gallery sector from the Treasury against the impact of five yearly professional revaluations of land and buildings, should these result in higher revaluations than forecast and consequently higher capital charges.

The Department has additionally agreed to cover any variation on capital charges arising from the use of indices in the years between full professional revaluations on inalienable land and buildings, such as the main building of the Gallery, from the Department's own funds until 2005-2006; currently, there is no guaranteed protection thereafter. Variations on other assets liable to capital charges are not covered.

Investment decisions after 31 March 2003 will need to take account of the impact of capital charges and the availability of provision within the resource allocation from the Department. The Gallery will also need to manage any fluctuations in future years arising from variations in the value of assets on indexation, apart from those eligible for cover by the Department.

### Future developments

During 2003 the Gallery is undertaking a series of policy reviews of the priorities and direction for the years ahead. In the autumn of 2003 the work from the policy review papers will be brought together in a revised Corporate Plan for the period 2004-2007.

The following are the draft key strategic objectives for the Gallery

- To extend and broaden the range of audiences for the NPG and its work;
- To develop the Collection, creating opportunities for acquisition and commission, and bringing more of the reference collections into use;
- To increase the understanding of and engagement with the Collection and its subjects through outstanding research, displays and exhibition, education, access, publishing, information, regional and digital programmes, and a higher public profile;
- To increase the financial resources available through both public and private sector support, trading and licensing;
- To develop staff as an essential resource through the extension of staff training, development and learning programmes; and
- To bring the buildings and technical infrastructure of the Gallery to the highest standards, including storage, staff and technical accommodation.

Achieving these objectives will be assisted by the announcement during 2002-2003 that, after two years of cash standstill, the Gallery will benefit from a 10% increase in its Grant-in-aid revenue grant in 2004-2005 and a further 1% in 2005-2006; in addition there will be a £0.1m capital allocation in both years. The exceptional income generated by the success of the *Mario Testino: Portraits* exhibition has been used as bridging funds to enable the Gallery to embark immediately on the consolidation of its existing activities and the development of new initiatives during 2003-2004. In particular, the Gallery has recently reviewed its National Strategy and identified five linked strands

- a reinvigoration of the partnership with the National Trust;
- the creation of a partnership scheme with regional museums;
- the development of the regional touring programme;
- creating special loans of groups or individual works which complement the longer term loans to country houses and museums; and
- developing links for information sharing and the exchange of knowledge in the field of portraits.

In 2003-2004 there is a £0.25m capital grant from the Department for Culture, Media and Sport, which will allow the initiation of a refurbishment at the regional partner, Beningbrough Hall, whereby new options will be explored, such as audio-guides, the use of the Woodward Portrait Explorer and "visiting portraits"; it will also fund the continuation of the cataloguing and digitisation of the Photographs and Archive Collections until March 2004. Further funds will be sought during the year to enable this work to extend beyond 2003-2004 while a number of new ICT-orientated initiatives will be planned for implementation in 2004-2005 and beyond. Funding also needs to be found to enhance the Gallery's work in research.

The Gallery has another exciting exhibition and education programme planned for 2003-2004; amongst its highlights will be the 2003 *BP Portrait Award*, an examination of representations of servants and domestic employees from the 17th century up to the present day, entitled *Below Stairs*, a major retrospective of the photographer Cecil Beaton and a re-launch of the popular annual photographic portrait award, with Schweppes as sponsor. Education will seek to increase its teaching capacity and its outreach provision with the extension of video-conferencing. The introduction of a mobile shop will offer visitors a more convenient sales outlet in temporary exhibitions and the lecture theatre.

The main challenge for the efficient administration of the Gallery is a long-term strategy with a short-term solution to meet the expanding accommodation needs of both the collection and staff. This has been identified as a top priority in the Gallery's 2003-2004 Business Plan which details all the Gallery's objectives for the forthcoming year and is available on the website [npg.org.uk](http://npg.org.uk).

## The Board of Trustees and Professional Advisers

Between 1 April 2002 and 10 July 2003, the date on which the accounts were signed, the Trustees were

Professor Robert Boucher, CBE, FEng ( <i>from June 2003</i> )	Mr Tom Phillips, CBE, RA
Professor David Cannadine, FBA, FRSL ( <i>* to February 2003, Vice Chair from February 2003</i> )	Professor The Earl Russell, FBA
Ms Amelia Fawcett, CBE # ( <i>Trustee * from June 2003</i> )	Sir David Scholey, CBE (Chairman) * #
Ms Flora Fraser ( <i>Vice Chair to February 2003</i> )	Sara Selwood ( <i>from May 2002</i> ) *
Mrs Tessa Green ( <i>to July 2002</i> ) *	Alexandra Shulman
Sir Max Hastings	Mrs Claire Tomalin, FRSL ( <i>to September 2002</i> )
Professor Ludmilla Jordanova	Sir John Weston, KCMG * #
Sir Christopher Ondaatje, CBE, OC #	Baroness Willoughby de Eresby, DL

### *ex officio*

President of the Royal Academy of Arts - Professor Philip King, CBE, PRA

Lord President of the Council - The Rt. Hon. Robin Cook MP (to March 2003), the Rt. Hon. John Reid MP (to June 2003) and from June 2003 The Rt. Hon. the Lord Williams of Mostyn QC.

Until the end of June 2002 the Director of the National Portrait Gallery was Dr Charles Saumarez Smith. On 4 November 2002 Sandy Nairne assumed the post. During the interim period Jacob Simon, Chief Curator, was Acting Director and Accounting Officer.

\* *Audit and Compliance Committee members. The Chair of the Audit and Compliance Committee is Sir John Weston, KCMG*

# *Development Board members. The Chair of the Development Board was Charles McVeigh III (to December 2002) and Amelia Fawcett, CBE from December 2002.*

## External advisers

**Bankers**            Main:            National Westminster Bank  
2a Charing Cross Road  
London WC2H 0PD

Trust Funds:      Royal Bank of Scotland  
Drummond House  
1 Redheughs Avenue  
Edinburgh EH12 9JN

**External auditors**

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

**Internal auditors**

The British Museum Internal Audit Unit  
Great Russell Street  
London WC1B 3DG

*Sandy Nairne*  
Accounting Officer

10 July 2003

*Sir David Scholey*  
Chairman of Trustees

10 July 2003

## Annex to the Foreword and Annual Report for the year ended 31 March 2003

### Performance against core 2002-2003 Funding Agreement Targets

For 2001-2002 to 2003-2004, the Funding Agreement with the Department for Culture, Media & Sport contains a mix of performance indicators: "core" targets suggested by the Department and common to all national museums and galleries and targets specific to the National Portrait Gallery. Targets are reviewed annually and redetermined where appropriate. Performance is given here against the core original targets only; further reference is made to performance against the revised core targets within the Foreword and Annual Report.

Indicator	Note	1999-2000 Actual	2000-2001 Actual	2001-2002 Actual	2002-2003 Target	2002-2003 Actual
Visits to St Martin's Place (000s)		997	1,219	1,479	<b>1,100</b>	<b>1,319</b>
Number of child visitors (000s)		36	62	90	<b>56</b>	<b>93</b>
Number of over-60 visitors (000s)		176	244	200	<b>220</b>	<b>276</b>
Number of repeat visitors (000s)		670	790	945	<b>715</b>	<b>936</b>
% of time open		64%	74%	74%	<b>74%</b>	<b>74%</b>
Website visits (000s)		796	3,033	5,133	<b>2,750</b>	<b>6,293</b>
% of Primary collection internet accessible		100%	100%	100%	<b>100%</b>	<b>100%</b>
% of Reference collection internet accessible – Archive	1	0%	12%	13%	<b>27%</b>	<b>16%</b>
% of Reference collection internet accessible – Photographs	1	0%	6%	10%	<b>25%</b>	<b>9%</b>
Number of UK loans		54	68	77	<b>53</b>	<b>93</b>
Number of overseas loans		18	18	26	<b>19</b>	<b>22</b>
% of storage at right environmental quality		100%	100%	100%	<b>100%</b>	<b>100%</b>
Learners in on-site programmes (000s)	2	49	57	47	<b>52</b>	<b>45</b>
Learners in outreach programmes		300	250	335	<b>250</b>	<b>1,430</b>
Average days lost sick per employee	3	10	7	6	<b>8</b>	<b>5</b>
Grant-in-aid per visitor (including regional partners and website visitors)		£2.47	£1.15	£0.81	<b>£1.37</b>	<b>£0.74</b>

Note 1: the 2002-2003 percentages are based on the latest total of over 300,000 objects within the Reference Collection, an increase of over 60,000 items since the targets were determined, which has the effect of decreasing the % accessible; it should also be noted, as multiple images of sitters are held, that the Gallery does not intend to make 100% of these collections available on the internet.

Note 2: the original targets and previous outturns included an element of estimation; during 2002-2003, the target was discussed and re-set at 45,000 accordingly. The 2002-2003 outturn was therefore on target and represented at least 20% growth on a more realistic assessment of the 2001-2002 outturn.

Note 3: the 2002-2003 figure was unusually low and is unlikely to be sustained in future years.

## Statement of Trustees' and Director's responsibilities

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

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

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

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

*Sandy Nairne*  
Accounting Officer

10 July 2003

*Sir David Scholey*  
Chairman of Trustees

10 July 2003

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

## Statement on Internal Control

As Accounting Officer and representative of the Trustees, we acknowledge our joint responsibility for ensuring 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 the Gallery's assets for which I, the Accounting Officer, am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting and ensuring compliance with the requirements of the Gallery's Financial Memorandum.

The system of internal control is designed to identify and manage rather than eliminate the risks of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of the Gallery's policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. The procedures necessary to implement Treasury guidance were in place as at March 2003 and up to the date of approval of the annual report and accounts and accords with Treasury guidance.

The Board of Trustees approved a risk management framework in 2000-2001 and a Gallery-wide risk register was created, which identified, assessed and allocated responsibility for risks. The risk register contributed to the prioritisation of resources within the 2002-2003 corporate plan and budget. In November 2002 the register was refined in accordance with the recommendations of a 2001-2002 internal audit report on the risk management framework. The register was re-drafted to improve the presentation of risk prioritisation and risks are now clearly attributed to the objectives of the 2003-2004 business plan. In February 2003 Trustees approved a risk policy for the Gallery and received their first annual report on risk management. Since February 2003 the Chair of Audit and Compliance Committee has submitted quarterly risk management updates to the Board of Trustees.

The Gallery employs the British Museum Internal Audit Unit which operates in accordance with the Government Internal Audit Standards. It submits regular reports which include the Head of Internal Audit's independent opinion on the adequacy and effectiveness of the systems of internal control audited in the year together with recommendations for improvement. In 2002-2003 the internal audit strategy was enlarged to deliver positive, reasonable assurance on the Gallery's risk management, control and governance process.

Our review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the managers within the Gallery who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports.

*Sandy Nairne*  
Accounting Officer

10 July 2003

*Sir David Scholey*  
Chairman of Trustees

10 July 2003

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

I certify that I have audited the financial statements on pages 17 to 38 under the Museums and Galleries Act 1992. These financial statements have been prepared under the historic cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 22 to 24.

## Respective responsibilities of the Trustees, the Director and Auditor

As described on page 13 the Trustees and the Director of the National Portrait Gallery as the Accounting Officer are responsible for the preparation of financial statements in accordance with the Museums and Galleries Act 1992 and directions made by the Secretary for Culture, Media and Sport thereunder and for ensuring the regularity of financial transactions. The Trustees and the Director are also responsible for the preparation of the Foreword and Annual Report. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements give a true and fair view, and are properly prepared in accordance with the Museums and Galleries Act 1992 and directions made by the Secretary of State for Culture, Media and Sport thereunder, and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Foreword and Annual Report on pages 2 to 12 is not consistent with the financial statements, if the National Portrait Gallery has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on page 14 reflects the National Portrait Gallery's compliance with the Treasury's guidance 'Corporate Governance: statement on internal control'. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements.

## Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures and regularity of the financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Trustees and the Director in the preparation of the financial statements, and of whether the accounting policies are appropriate to the National Portrait Gallery's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error, or by fraud or other irregularity and that, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinion

In my opinion

- the financial statements give a true and fair view of the state of affairs of the National Portrait Gallery at 31 March 2003 and of its incoming resources and application of resources, including its income and expenditure, and cash flows, for the year then ended and have been properly prepared in accordance with the Museums and Galleries Act 1992 and with the directions made thereunder by the Secretary of State for Culture, Media and Sport; and
- in all material respects the expenditure, income and resources have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

*John Bourn*  
Comptroller and Auditor General

15 July 2003

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

## Summary Income and Expenditure Account for the year ended 31 March 2003

	<b>2003</b>	2002
	<b>£000</b>	£000
Total income of continuing operations	<b>12,449</b>	11,086
Less: operating expenditure	<b>10,701</b>	9,938
<b>Total surplus for the year</b>	<b>1,748</b>	1,148
Add/(less): capital projects income	<b>(1,224)</b>	420
<b>Operating surplus on revenue income and expenditure</b>	<b>524</b>	1,568

Capital projects income represents net income after depreciation charged in the year which the Trustees have identified as being designated for capital projects. This includes £2.266m restricted income (£0.555m in 2001-2002) and £0.162m unrestricted income (£0.475m in 2001-2002), before total depreciation of £1.204m.

*The notes on pages 22 to 38 form part of these accounts*

## Statement of Financial Activities for the year ended 31 March 2003

	Notes	Unrestricted funds £000	Restricted funds £000	<b>Total 2003 £000</b>	Total 2002 £000
<b>Income resources</b>					
<b>Grant-in-aid</b>	2	5,462	270	<b>5,732</b>	5,462
<b>Charitable activities</b>					
Exhibitions income		990	–	<b>990</b>	812
Educational income		24	–	<b>24</b>	18
<b>Activities to generate funds</b>					
Sponsorship income		–	373	<b>373</b>	367
Trading income		2,475	–	<b>2,475</b>	2,411
Gallery hire income		160	–	<b>160</b>	204
Corporate members		94	–	<b>94</b>	139
Individual giving		124	–	<b>124</b>	107
Catering franchise		151	–	<b>151</b>	160
Other fundraising income		67	5	<b>72</b>	96
<b>Donations</b>					
Grants and donations		67	108	<b>175</b>	218
Donated acquisitions	1(d)	–	289	<b>289</b>	114
Donations for acquisitions		–	740	<b>740</b>	178
Donations for building projects		–	508	<b>508</b>	191
Lottery income		–	304	<b>304</b>	240
Legacies		50	–	<b>50</b>	153
<b>Investment income</b>	3	79	35	<b>114</b>	118
<b>Other income</b>		71	3	<b>74</b>	98
<b>Total incoming resources</b>		<u>9,814</u>	<u>2,635</u>	<u><b>12,449</b></u>	<u>11,086</u>
<b>Resources expended</b>					
<i>Costs of generating funds</i>					
Fundraising	5	394	14	<b>408</b>	336
Trading activities	5	1,999	41	<b>2,040</b>	1,819
		<u>2,393</u>	<u>55</u>	<u><b>2,448</b></u>	<u>2,155</u>
<b>Net incoming resources available for charitable application</b>		7,421	2,580	<b>10,001</b>	8,931
<b>Charitable expenditure</b>					
<i>Activities in furtherance of the charity's objectives</i>					
Collections management	5	2,577	267	<b>2,844</b>	2,529
Research and documentation	5	703	69	<b>772</b>	740
Exhibitions and display	5	1,270	964	<b>2,234</b>	2,064
Education	5	458	106	<b>564</b>	452
Publicity and information	5	805	–	<b>805</b>	909
Management and administration	5	1,024	10	<b>1,034</b>	1,089
<b>Total charitable expenditure</b>		<u>6,837</u>	<u>1,416</u>	<u><b>8,253</b></u>	<u>7,783</u>
<b>Total resources expended</b>		9,230	1,471	<b>10,701</b>	9,938

	Notes	Unrestricted funds £000	Restricted funds £000	<b>Total 2003 £000</b>	Total 2002 £000
<b>Notional costs</b>					
Cost of capital	1(1)	1,256	–	<b>1,256</b>	1,158
Net incoming/(outgoing) resources after notional costs		(672)	1,164	<b>492</b>	(10)
Reversal of notional costs		1,256	–	<b>1,256</b>	1,158
<b>Net incoming resources for the year before transfers</b>					
		584	1,164	<b>1,748</b>	1,148
Transfers		(246)	246	–	–
<b>Net incoming resources for the year after transfers</b>					
		338	1,410	<b>1,748</b>	1,148
Losses on investments	7	(3)	–	<b>(3)</b>	(2)
Indexation adjustments/revaluation		607	(22)	<b>585</b>	1,172
Net movement in funds		942	1,388	<b>2,330</b>	2,318
Fund balances brought forward at 1 April 2002		9,861	41,124	<b>50,985</b>	48,667
<b>Fund balances carried forward at 31 March 2003</b>					
		10,803	42,512	<b>53,315</b>	50,985

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 22 to 38 form part of these accounts*

## Balance Sheet as at 31 March 2003

	Notes	2003 £000	2002 £000
<b>Fixed assets</b>			
Tangible assets	6	<b>50,255</b>	48,191
Investments	7	<b>32</b>	35
		<b>50,287</b>	48,226
<b>Current assets</b>			
Investments	7	<b>116</b>	1,043
Stocks		<b>706</b>	664
Debtors and prepayments	9	<b>876</b>	1,295
Cash at bank and in hand		<b>2,119</b>	2,180
		<b>3,817</b>	5,182
<b>Current liabilities</b>			
<b>Creditors:</b> amounts falling due within one year	10	<b>789</b>	2,423
<b>Net current assets</b>		<b>3,028</b>	2,759
<b>Net assets</b>		<b>53,315</b>	50,985
Represented by			
<b>Income funds</b>			
<b>Restricted funds</b>	11	<b>42,512</b>	41,124
<b>Unrestricted funds</b>			
Designated funds	11	<b>9,927</b>	8,985
General funds	11	<b>876</b>	876
Total funds		<b>53,315</b>	50,985

*The notes on pages 22 to 38 form part of these accounts*

*Sandy Nairne* 10 July 2003  
Accounting Officer

*Sir David Scholey* 10 July 2003  
Chairman of Trustees

## Cash Flow Statement as at 31 March 2003

	Note	<b>2003</b>	2002
		<b>£000</b>	£000
Net cash inflow from operating activities	17(a)	<b>2,596</b>	1,882
Capital expenditure and financial investment	17(b)	<b>(3,698)</b>	(911)
Management of liquid resources	17(b)	<b>927</b>	(42)
Return on investments and servicing of finance	17(b)	<b>114</b>	118
<b>(Decrease)/increase in cash in the year</b>		<b>(61)</b>	1,047

*The notes on pages 22 to 38 form part of these accounts*

## Notes to the Accounts for the year ended 31 March 2003

### 1 Account policies

#### a Basis of accounting

The accounts have been prepared under the historic cost convention modified to include the revaluation of land and buildings, and the revaluation of listed investments to market value at the balance sheet date, and they comply with the Statement of Recommended Practice 2000, Accounting and Reporting by Charities, applicable accounting standards and the 2002-2003 Accounts Direction issued by the Department for Media, Culture and Sport. The accounts include the Grant-in-aid account and two trust funds administered by the Gallery (NPG2000 and the Dame Helen Gardner bequest) and exclude the American Friends of the National Portrait Gallery (London) Foundation Inc, a US grant-giving organisation with 501 (c) (3) tax status, over which the Gallery has no direct control. The Gallery is recognised as an exempt charity under the provisions of the Charities Act 1993.

#### b Incoming resources

All income is accounted for on a receivable basis.

Grant-in-aid from the Department for Culture, Media and Sport allocated to general purposes is taken to the income and expenditure account in the year it is received.

#### c Expenditure

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

Charitable expenditure and costs of generating funds comprise direct expenditure including direct staff costs attributable to the Gallery. Where costs cannot be directly attributed, they have been allocated to activities on a basis consistent with the use of the resources (these general overheads include the costs of utilities, maintenance, communications and other office expenses).

Fundraising costs are those incurred in seeking voluntary contributions for the Gallery. Management and administration costs are those incurred in connection with the management of the Gallery's assets, organisational administration and compliance with constitutional and statutory requirements.

#### d Collection acquisitions

Additions to the collection acquired since 1 April 2001 are capitalised and recognised in the Balance Sheet at the cost or value of the acquisition, where such a cost or valuation is reasonably obtainable and reliable. Such items are not depreciated or re-valued as a matter of routine. The valuations of donated acquisitions have been made by the Gallery's staff and therefore represent an indicative estimate.

#### e Fund accounting

##### Unrestricted funds

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

##### Restricted funds

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

*f Tangible fixed assets*

The Gallery capitalises the purchase of assets which cost more than £5,000 and which have lives beyond the financial year in which they are bought. Since 1 April 2001 all purchased and donated additions to the Primary Collection and all purchased additions to the Photographs Collection have been capitalised.

Land and buildings are professionally valued every five years. In the years between professional valuations of lands and buildings, and every year for other fixed assets, National Statistical Office indices are used to adjust the net book value of the assets.

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

Asset lives are

Freehold buildings	50 years
Leasehold land and buildings	length of lease
Plant and machinery	15-20 years
Furniture and equipment	4 years

*g Investments*

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

*h Stock*

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

*i Leases*

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

*j Foreign currencies*

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

*k Pension costs*

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

*I Notional costs*

In accordance with Treasury guidance, notional costs of capital (calculated as 6% of the average non-donated capital employed) are charged in the Statement of Financial Activities in arriving at a net incoming/(outgoing) resources figure. These are reversed so that no provision is included in the balance sheet. From 2003-2004 the rate will reduce to 3.5%.

**2 Grant-in-aid**

	<b>2003</b>	2002
	<b>£000</b>	£000
Running costs	<b>5,157</b>	5,157
Capital costs	<b>270</b>	–
Collections purchases	<b>305</b>	305
	<b>5,732</b>	5,462
Comprising: DCMS Request for Resources 1	<b>5,732</b>	5,462

£5,732,000 of Grant-in-aid has been received during the year. This money is available for running costs, capital improvements and collection purchases.

**3 Investment income**

	<b>2003</b>	2002
	<b>£000</b>	£000
Interest	<b>112</b>	116
Investment dividends	<b>2</b>	2
	<b>114</b>	118

**4 Net outgoing resources before transfers**

is stated after charging

	<b>2003</b>	2002
	<b>£000</b>	£000
a Auditors' remuneration	<b>18</b>	19
b Operating lease rentals on land and buildings	<b>42</b>	42
c Operating lease rental on fixtures and equipment	<b>30</b>	30

**5 Total resources expended**

	Staff costs	Other direct costs	Depreciation	Allocated support costs	<b>2003 Total</b>	2002 Total
	£000	£000	£000	£000	<b>£000</b>	£000
Fundraising	221	160	8	19	<b>408</b>	336
Trading activities	749	1,139	66	86	<b>2,040</b>	1,819
Collections management	1,839	333	387	285	<b>2,844</b>	2,529
Research and documentation	543	10	69	150	<b>772</b>	740
Exhibitions and display	352	807	571	504	<b>2,234</b>	2,064
Education	324	100	76	64	<b>564</b>	452
Publicity and information	121	673	–	11	<b>805</b>	909
Management and administration	571	378	27	58	<b>1,034</b>	1,089
	<u>4,720</u>	<u>3,600</u>	<u>1,204</u>	<u>1,177</u>	<b><u>10,701</u></b>	<u>9,938</u>
Add: salaries capitalised	18					
Total salaries	<u>4,738</u>					

The above figures include equal apportionment of the Director's salary, maintenance and office expenses.

Capitalised salaries refer to the DCMS-funded cataloguing and digitisation project.

*a Staff costs*

	<b>2003</b>	2002
	<b>£000</b>	£000
Staff costs during the year amounted to		
Wages and salaries	<b>3,993</b>	3,433
National Insurance	<b>266</b>	234
Pension	<b>479</b>	433
	<b><u>4,738</u></b>	<u>4,100</u>

**Pensions**

The Gallery's employees are eligible for membership of the Principal Civil Service Pension Scheme (PCSPS), a defined benefits pension scheme operated for the benefit of employees. The pension charge for the year was £479,000 (£433,000 in 2001–2002) and was paid to the Paymaster General at rates determined from time to time by the Government Actuary and advised by the Treasury.

For 2002-2003 the rates were as follows

	<b>2002-2003</b>		2001-2002
£16,500 and below	12.0%	£16,000 and below	12.0%
£16,501 - £34,000	13.5%	£16,001 - £32,500	13.5%
£34,001 - £59,000	16.5%	£32,501 - £56,000	16.5%
£59,001 and above	18.5%	£56,001 and above	18.5%

The PCSPS is an unfunded multi-employer defined benefit scheme but the National Portrait Gallery is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 1999. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation ([www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)). For 2002-2003, employers' contributions of £479,000 were payable to the Cabinet Office, the PCSPS (2001-2002 £433,000) at one of four rates in the range 12 to 18.5 per cent of pensionable pay, based on salary bands. Rates will remain the same next year, subject to revalorisation of the salary bands. Employer contributions are to be reviewed every four years following a full scheme valuation by the Government Actuary.

## 5 Total resources expended (continued)

The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Employees joining after 1 October 2002 could opt to open a partnership pension account, a stakeholder pension with an employer contribution.

Employers' contributions of £1,900 were paid to one or more of a panel of four appointed stakeholder pension providers. Employer contributions are age-related and range from 3 to 12.5 per cent of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay. In addition, employer contributions of £100, 0.8 per cent of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

### Numbers of employees

The number of employees whose emoluments as defined for taxation purposes amounted to over £50,000 in the year were as follows

	<b>2003</b>	2002
£50,000 - £60,000	<b>2</b>	1
£60,001 - £70,000	-	-
£70,001 - £80,000	<b>1</b>	1

The average number of employees analysed by function during the year was as follows

	Permanent staff	Temporary staff	<b>2003 Number</b>	2002 Number
Fundraising	9	1	<b>10</b>	8
Trading activities	36	1	<b>37</b>	33
Collections management	80	3	<b>83</b>	78
Research and documentation	16	-	<b>16</b>	12
Exhibitions and display	19	2	<b>21</b>	21
Education	7	32	<b>39</b>	26
Publicity and information	2	-	<b>2</b>	2
Management and administration	21	1	<b>22</b>	19
	<u>190</u>	<u>40</u>	<b><u>230</u></b>	<u>199</u>

### Director

The remuneration of the former Director, Charles Saumarez Smith, from April to June, was £17,419 plus a non-consolidated bonus of £10,394 in respect of 2001-2002 and employer's pension contributions of £3,222 (£69,297 plus non-consolidated bonus of £7,065 and employer's pension contributions of £12,820 in 2001-2002). The remuneration of the current Director, Sandy Nairne, from November to March, was £32,667 and employer's pension contributions £6,043. The remuneration of the Acting Director, Jacob Simon, from July to October, was £20,791 and employer's pension contributions £2,830. Since September 1998, the Director's contract of employment has been on the same basis as other Gallery employees.

The Director's pension details are

	<b>2003</b>	2002
Age as at 31 March	<b>49</b>	47
	<b>£000</b>	£000
Remuneration during 2002-2003	<b>81</b>	76
Pension increase (net of inflation)	-	1
Accrued pension	<b>9</b>	17

Sandy Nairne had previously been a member of the PCSPS and therefore the majority of his accrued pension relates to former employment.

## 5 Total resources expended (continued)

### b Trustees

The trustees neither received nor waived any emoluments during the year (also in 2001-2002). Expenses reimbursed to or paid on behalf of three trustees amounted to £765 (£1,656 in 2001-2002).

Trustees are normally appointed to serve for a period of five years with the possibility of renewal at the end of that period.

## 6 Tangible fixed assets

	Land and buildings	Plant and machinery	Furniture & equipment	Assets under construction	Heritage assets	Total
	£000	£000	£000	£000	£000	£000
Valuation/cost at 1 April 2002	46,541	3,765	1,454	46	828	52,634
Reclassification of assets	–	–	23	(23)	–	–
Additions in 2002-2003	254	–	39	1,122	1,268	2,683
Disposals in 2002-2003	–	–	(21)	–	–	(21)
Indexation adjustment 2002-2003	–	–	(26)	–	–	(26)
Revaluation	(3,375)	(444)	–	–	–	(3,819)
Valuation/cost at 31 March 2003	<b>43,420</b>	<b>3,321</b>	<b>1,469</b>	<b>1,145</b>	<b>2,096</b>	<b>51,451</b>
Depreciation at 1 April 2002	2,979	444	1,020	–	–	4,443
Depreciation adjustment on disposals	–	–	(20)	–	–	(20)
Depreciation provided in 2002-2003	794	196	214	–	–	1,204
Indexation adjustment	–	–	(18)	–	–	(18)
Add back depreciation on revalued assets	(3,773)	(640)	–	–	–	(4,413)
Depreciation at 31 March 2003	–	–	<b>1,196</b>	–	–	<b>1,196</b>
Net book value at 31 March 2003	<b>43,420</b>	<b>3,321</b>	<b>273</b>	<b>1,145</b>	<b>2,096</b>	<b>50,255</b>
Net book value at 1 April 2002	43,562	3,321	434	46	828	48,191

The net book values of land and buildings, including assets under construction, relating to freehold properties at 31 March 2003 were £42.1m for freehold properties (land £6.8m, buildings £35.3m) and £2.3m for leasehold properties (land £0.5m, buildings £1.8m).

The net book value at 31 March 2003 represents fixed assets for

	Land and buildings	Plant and machinery	Furniture & equipment	Assets under construction	Heritage assets	Total
	£000	£000	£000	£000	£000	£000
Charitable activities	38,935	2,978	199	1,145	2,096	45,353
Other activities	4,485	343	74	–	–	4,902
Total	<b>43,420</b>	<b>3,321</b>	<b>273</b>	<b>1,145</b>	<b>2,096</b>	<b>50,255</b>

## 6 Tangible fixed assets (continued)

All the Gallery's land and buildings were revalued in accordance with the RICS Appraisal and Valuation Manual by the firm of chartered surveyors, Gerald Eve, at 31 March 2003, at which time their values were increased overall to £47.8m as follows: land £7.3m, freehold buildings £38.7m, leasehold buildings £1.8m. The losses and gains on the net book values of fixed assets in the current year are the result of the revaluation and indexation calculations on furniture and equipment (see Note 1 for further explanation).

**The main Gallery:** The main Gallery at St.Martin's Place was transferred from the Secretary 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 £43.7 million and has been revalued at 31 March 2003 at depreciated replacement cost.

**Orange Street:** The land and buildings at 39-45 Orange Street and 1 Charing Cross Road were purchased by the Trustees in 1988-1989 for £1.5m. 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. This property has been revalued at 31 March 2003 existing use, with an allowance to reflect the restrictions described.

**Merton store:** Since the land and buildings used for storage at Merton are held on a 12 year operating lease, expiring in May 2004 and renewable to May 2009, these assets have not been capitalised; the Gallery's plant and machinery at this property were revalued at 31 March 2003 to £0.47m at existing use. The open market value of the lease at 31 March 2003 was in the region of £18,000.

## 7 Investments

### Fixed asset investments

	Charinco £000	COIF £000	2003 £000	2002 £000
Market value at 1 April 2002	17	18	35	37
Net gain/(loss) on revaluation	1	(4)	(3)	(2)
<b>Market value at 31 March 2003</b>	<b>18</b>	<b>14</b>	<b>32</b>	<b>35</b>
<b>Historical cost at 31 March 2003</b>	<b>13</b>	<b>4</b>	<b>17</b>	<b>17</b>
<b>Unrealised investment gains at 31 March 2003</b>	<b>4</b>	<b>10</b>	<b>14</b>	<b>18</b>

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

	2003 £000	2002 £000
Investment assets in the UK	32	35
Investment assets outside the UK	–	–
	<b>32</b>	<b>35</b>

### Current asset investments

£116,000 ( 2001–2002 £1.043m) cash deposits are classified as current investments.

## 8 The role of financial instruments

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

### Liquidity risk

Approximately 70% of the Gallery's income (excluding income for capital and net of trading and fundraising costs) is provided as Grant-in-aid from the Department for Culture, Media and Sport. As a result the Gallery is not exposed to significant liquidity risks. In addition liquidity is safeguarded by the reserves policy which ensures that an amount equivalent to 75% of the average value of stock and to 5% of annual expenditure is held in retained surpluses.

### Interest rate risk

The Gallery draws down its annual Grant-in-aid allocation according to its monthly cashflow requirements; 94% of the Gallery's financial assets represents cash held for these short term requirements and therefore earns interest at a floating rate. 5% of the Gallery's financial assets carry fixed rates of interest and 100% of its financial liabilities carry a nil rate of interest. Little more than 1% of the Gallery's financial assets are held in equities listed on a recognised stock exchange. The gallery is not, therefore, exposed to significant interest rate risk.

### Interest rate profile

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

	Floating rate	Fixed rate	Non- interest bearing	Weighted average interest rate	Weighted average period for which rate is fixed
	£000s	£000s	£000s		
At 31 March 2003					
Sterling Floating	2,010	-	-	4.4%	
Fixed		116	-	3.6%	1 month
US\$ Currency	108	-	-	0.0%	
Euro Currency	1	-	-		
Other		-	32		
	<u>2,119</u>	<u>116</u>	<u>32</u>		
At 31 March 2002					
Sterling Floating	2,083	-	-	4.4%	
Fixed	-	1,043	-	4.7%	1 month
US\$ Currency	97	-	-	1.5%	
Other	-	-	35		
	<u>2,180</u>	<u>1,043</u>	<u>35</u>		

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

### Foreign currency risk

The Gallery's exposure to foreign currency risk is not significant.

**9 Debtors and prepayments**

	<b>2003</b>	2002
	<b>£000</b>	£000
Trade debtors	<b>363</b>	605
Other debtors	<b>395</b>	636
Tax recoverable	<b>118</b>	54
	<b>876</b>	1,295

**10 Creditors and accruals**

Creditors falling due within one year

	<b>2003</b>	2002
	<b>£000</b>	£000
Trade creditors	<b>72</b>	111
Other creditors	<b>49</b>	505
Taxation and social security	<b>95</b>	88
Accrued expenses	<b>541</b>	1,603
Deferred income	<b>32</b>	116
	<b>789</b>	2,423
of which creditors for capital expenditure	<b>170</b>	1,185

**11 Statement of funds**

	Note	Balance at 1 April 2002 £000	Income £000	Expenses £000	Net gains/ losses £000	Transfers £000	<b>Balance at 31 March 2003 £000</b>
<b>Unrestricted funds</b>							
<i>Designated funds</i>							
Collection Purchases	12	49	–	–	–	16	<b>65</b>
Collections Designated Fund	12	–	390	–	–	(390)	–
Capital Projects Reserve Fund (*)	12	7,635	162	323	607	–	<b>8,081</b>
Investment and Contingency Fund	12	650	–	–	–	580	<b>1,230</b>
Deferred Projects Fund	12	651	–	–	–	(100)	<b>551</b>
<b>Total designated funds</b>		<b>8,985</b>	<b>552</b>	<b>323</b>	<b>607</b>	<b>106</b>	<b>9,927</b>
<b>General funds</b>							
Retained surpluses		876	9,262	8,907	(3)	(352)	<b>876</b>
<b>Total unrestricted funds</b>		<b>9,861</b>	<b>9,814</b>	<b>9,230</b>	<b>604</b>	<b>(246)</b>	<b>10,803</b>
<b>Restricted funds</b>							
Development Projects Fund	13	21,285	–	599	(986)	1,252	<b>20,952</b>
Capital Reserve Fund (Non-donated assets)	13	10,178	–	121	976	–	<b>11,033</b>
Capital Reserve Fund (Donated Assets)	13	8,265	–	160	(12)	–	<b>8,093</b>
Capitalised Acquisitions Fund	13	828	878	–	–	390	<b>2,096</b>
Total Capital Reserve Funds (*)		40,556	878	880	(22)	1,642	<b>42,174</b>
Sponsorships/donations	13	213	1,718	591	–	(1,019)	<b>321</b>
NPG2000 Fund		342	35	–	–	(377)	–
Dame Helen Gardner bequest		13	4	–	–	–	<b>17</b>
		355	39	–	–	(377)	<b>17</b>
<b>Total restricted funds</b>		<b>41,124</b>	<b>2,635</b>	<b>1,471</b>	<b>(22)</b>	<b>246</b>	<b>42,512</b>
<b>Total funds</b>		<b>50,985</b>	<b>12,449</b>	<b>10,701</b>	<b>582</b>	<b>–</b>	<b>53,315</b>

(\*) Capital reserve funds represent the net book value of tangible assets, including acquisitions, purchased with unrestricted or restricted funds as well as the value of the main gallery vested with Trustees; these funds are not available for spending.

**12 Designated funds***Collections Purchase Fund*

Purchases during 2002-2003 for the enhancement of the Primary collection which were funded by the Grant-in-aid allocation amounted to £379,000 (£287,000 in 2001-2002). Movements on the reserve were as follows

	<b>2003</b>	2002
	<b>£000</b>	£000
Balance at 1 April 2002	<b>49</b>	31
Add: Grant-in-aid allocation	<b>305</b>	305
Less: acquisitions for Primary Collection	<b>(379)</b>	(287)
Add: transfers	<b>90</b>	
	<b>16</b>	-
<b>Balance as at 31 March 2003</b>	<b>65</b>	49

*Collections Designated Fund*

	<b>2003</b>	2002
	<b>£000</b>	£000
Balance as at 1 April 2002	-	-
Purchases for the Primary and Photographs Collections during the year	<b>390</b>	296
Transfer to restricted Collections Reserve Fund	<b>(390)</b>	(296)
<b>Balance as at 31 March 2003</b>	<b>-</b>	-

This fund represents designation of Grant-in-aid expended on acquisitions, transferred to the restricted Collections Reserve Fund.

*Capital Projects Reserve Fund*

	<b>2003</b>	2002
	<b>£000</b>	£000
Balance as at 1 April 2002	<b>7,635</b>	7,823
Transferred from: Retained Surpluses	<b>162</b>	179
	<b>7,797</b>	8,002
Less: Depreciation for year	<b>(323)</b>	(572)
Add: Indexation adjustments/revaluation	<b>607</b>	205
<b>Balance as at 31 March 2003</b>	<b>8,081</b>	7,635

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

*Investment and Contingency Fund*

	<b>2003</b>	2002
	<b>£000</b>	£000
Balance as at 1 April 2002	<b>650</b>	-
Transfers during the year from Retained Surpluses	<b>580</b>	650
Expenditure during the year	-	-
<b>Balance as at 31 March 2003</b>	<b>1,230</b>	650

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

*Deferred Projects Fund*

	<b>2003</b>	2002
	<b>£000</b>	£000
Balance as at 1 April 2002	<b>651</b>	–
Transfers during the year from Retained Surpluses	<b>551</b>	651
Expenditure during the year	<b>(651)</b>	–
<b>Balance as at 31 March 2003</b>	<b>551</b>	651

This fund represents underspends generated in 2002-2003 which are to be employed in projects during 2003-2004.

**13 Restricted funds***Development Projects Fund*

	<b>2003</b>	2002
	<b>£000</b>	£000
Balance as at 1 April 2002	<b>21,285</b>	21,438
Less: depreciation for year	<b>(599)</b>	(675)
Indexation adjustments/revaluation	<b>(986)</b>	498
Add: transfers	<b>1,252</b>	24
<b>Balance as at 31 March 2003</b>	<b>20,952</b>	21,285

This fund represents the net book value of fixed assets that have been funded from restricted income.

*Capital Reserve Fund (non-donated assets)*

	<b>2003</b>	2002
	<b>£000</b>	£000
Balance as at 1 April 2002	<b>10,178</b>	9,937
Less: depreciation for year	<b>(121)</b>	(21)
Add: indexation adjustments/revaluation	<b>976</b>	262
<b>Balance as at 31 March 2003</b>	<b>11,033</b>	10,178

This fund represents the net book value of the vested fixed assets funded from self-generated income. The disaggregation of non-donated and donated assets within the Capital Reserve Fund constitutes a prior year adjustment and the opening balances have been adjusted accordingly. In addition, a prior year adjustment has been made to transfer £0.68m from the restricted Capital Reserve Fund to the unrestricted Capital Project Fund to correct a previous misclassification between the two funds.

*Capital Reserve Fund (donated assets)*

	<b>2003</b>	2002
	<b>£000</b>	£000
Balance as at 1 April 2002	<b>8,265</b>	8,241
Less: Depreciation for year	<b>(160)</b>	(182)
Indexation adjustments/revaluation	<b>(12)</b>	206
<b>Balance as at 31 March 2003</b>	<b>8,093</b>	8,265

This fund represents the net book value of the vested fixed assets which were funded by donations.

*Capitalised Acquisitions Fund*

	<b>2003</b>	2002
	<b>£000</b>	£000
Balance as at 1 April 2002	<b>828</b>	–
Funded acquisitions during the year	<b>878</b>	532
Acquisitions from Grant-in-aid (transferred from Collections Designated Fund)	<b>390</b>	296
<b>Balance as at 31 March 2003</b>	<b>2,096</b>	828

This fund represents donations received for and Grant-in-aid allocated to capitalised acquisitions.

*Sponsorships and donations*

	<b>2003</b>	2002
	<b>£000</b>	£000
Balance as at 1 April 2002	<b>213</b>	–
Income during the year	<b>1,718</b>	851
Expenditure during the year	<b>(591)</b>	(614)
Transfers	<b>(1,019)</b>	(24)
<b>Balance as at 31 March 2003</b>	<b>321</b>	213

This fund represents the balance remaining to be spent from donations given for a specified purpose.

*NPG2000 fund*

	<b>2003</b>	2002
	<b>£000</b>	£000
Balance as at 1 April 2002	<b>342</b>	300
Income during the year	<b>35</b>	42
Transfers	<b>(377)</b>	–
<b>Balance as at 31 March 2003</b>	<b>–</b>	342

This fund represents public donations to the Ondaatje Wing.

**13 Restricted funds (continued)***Dame Helen Gardner bequest*

	<b>2003</b>	2002
	<b>£000</b>	£000
Balance as at 1 April 2002	<b>13</b>	7
Income during the year	<b>4</b>	6
<b>Balance as at 31 March 2003</b>	<b>17</b>	13

This fund represents royalties received under Dame Helen Gardner's bequest.

**14 Analysis of Group net assets between funds**

Fund balances at 31 March 2003 are represented by

	<b>Unrestricted</b>	<b>Restricted</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Tangible fixed assets	8,081	42,174	50,255
Investments	32	–	32
Current assets	3,479	338	3,817
Current liabilities	(789)	–	(789)
<b>Total net assets</b>	<b>10,803</b>	<b>42,512</b>	<b>53,315</b>
Unrealised gains included above			
On tangible fixed assets	–	–	–
On investment assets	14	–	14
<b>Total unrealised gains at 31 March 2003</b>	<b>14</b>	<b>–</b>	<b>14</b>

**15 Financial commitments**

As at 31 March 2003 the Gallery had annual commitments under non-cancellable operating leases as follows

	<b>2003</b>		2002	
	<b>Land and</b>	<b>Furniture &amp;</b>	Land and	Furniture &
	<b>buildings</b>	<b>equipment</b>	buildings	equipment
	<b>£000</b>	<b>£000</b>	£000	£000
<b>Operating leases which expire</b>				
Two to five years	<b>42</b>	<b>30</b>	42	30

**16 Capital commitments**

As at 31 March 2003 the National Portrait Gallery had £100,000 of capital commitments authorised and contracted for in relation to the refurbishment of the Regency Galleries.

**17 Cash flow information***a Reconciliation of changes in resources to net inflow from operating activities*

	<b>2003</b>	2002
	<b>£000</b>	£000
Net incoming resources/surplus before revaluations	<b>1,748</b>	1,148
Less: investment income	<b>(114)</b>	(118)
Depreciation	<b>1,204</b>	1,450
Decrease in debtors	<b>419</b>	(712)
(Decrease)/increase in creditors	<b>(619)</b>	233
(Increase) in stocks	<b>(42)</b>	(119)
<b>Net cash flow from operating activities</b>	<b><u>2,596</u></b>	<u>1,882</u>

*b Analysis of cash flows*

	<b>2003</b>	2002
	<b>£000</b>	£000
<b>Capital expenditure and financial investment</b>		
Payments to acquire tangible fixed assets	<b><u>(3,698)</u></b>	<u>(911)</u>
<b>Management of liquid resources</b>		
Decrease/(increase) in short term deposits (current investments)	<b><u>927</u></b>	<u>(42)</u>
<b>Return on investments and servicing of finance</b>		
Interest received	<b>112</b>	116
Investment dividends	<b>2</b>	2
	<b><u>114</u></b>	<u>118</u>

*c Analysis of net funds*

	<b>2003</b>	2002
	<b>£000</b>	£000
Cash at bank and in hand at 1 April 2002	<b>2,180</b>	1,133
(Decrease)/increase in cash in the period	<b>(61)</b>	1,047
<b>Cash at bank and in hand 31 March 2003</b>	<b><u>2,119</u></b>	<u>2,180</u>

**18 Trading activities – retail, publications and picture library**

	<b>2003</b>	2002
	<b>£000</b>	£000
Trading turnover for the year	<b>2,475</b>	2,411
Less: cost of goods sold	<b>(905)</b>	(760)
Gross profit	<b>1,570</b>	1,651
Less: staff costs	<b>(732)</b>	(653)
direct overheads	<b>(234)</b>	(176)
	<b>604</b>	822

**Reconciliation to Note 5**

Direct salaries	<b>732</b>	653
Allocation of Director's salary, maintenance and office expenses	<b>17</b>	19
Total salaries as Note 5	<b>749</b>	672
Cost of goods sold	<b>905</b>	760
Direct overheads	<b>234</b>	176
Total costs as Note 5	<b>1,139</b>	936

Staff costs include salaries and employer's costs.

Net assets held for trading at 31 March 2003 comprise

**Current assets**

Stock	<b>706</b>	664
Debtors	<b>157</b>	222
	<b>863</b>	886

**Current liabilities**

Creditors	<b>58</b>	96
Accruals	<b>37</b>	147
	<b>95</b>	243
Net assets	<b>768</b>	643

**19 Contingent liabilities**

There were no material contingent liabilities at 31 March 2003.

**20 Post balance sheet events**

There were no post balance sheet events.

## 21 Related party transactions

The National Portrait Gallery's sponsor, the Department for Culture, Media and Sport, is regarded as a related party. During the year, the Gallery has had various material transactions with the Department and with other entities for which the Department is regarded as the parent Department as follows

	<b>Amount purchased</b>	<b>Amount sold</b>	<b>Donations/ grants awarded</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
<i>Related party</i>			
Arts Council	–	2	–
British Library	1	3	–
British Museum	11	–	–
Imperial War Museum	5	1	–
National Gallery	217	20	–
Heritage Lottery Fund	–	–	304
National Museums & Galleries on Merseyside	1	–	–
Tate Gallery	8	4	–
Victoria & Albert Museum	–	3	–
English Heritage	–	5	–
National Maritime Museum	1	7	–
National History Museum	1	–	–

### *Other related party transactions*

During 2002-2003 two Trustees, Sir Christopher Ondaatje and Ms Flora Fraser donated £6,000 and £10,000 respectively towards a fundraising and donor cultivation event. Sir Christopher Ondaatje furthermore provided generous support of £150,000 towards the appeal for the portrait of Lord Balfour. The Trustee Mr Tom Phillips was commissioned to create a portrait of the outgoing Director, for a fee of £11,000.

For further information about the National Audit Office please contact:

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Press Office  
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Victoria  
London  
SW1W 9SP

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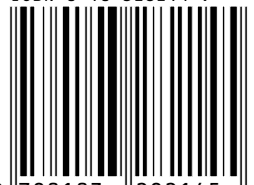
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