

MUSEUMS AND GALLERIES ACT 1992

Account, of the National Portrait Gallery prepared pursuant to Act 1992, c.44, para 9(7), of the National Portrait Gallery for the year ended 31 March 2004, together with the Report of the Comptroller and Auditor General thereon. (In continuation of House of Commons Paper No. 1019 of 2002-2003)

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

National Portrait Gallery Account 2003-2004

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Contents

	Page
Foreword and Annual Report	2
Annex to the Foreword and Annual Report	13
Statement of Trustees' and Director's responsibilities	14
Statement on Internal Control	15
The Certificate and Report of the Comptroller and Auditor General	17
Summary Income and Expenditure Account	19
Statement of Financial Activities	20
Balance Sheet	22
Cash Flow Statement	23
Notes the Accounts	24

Foreword and Annual Report

Business, aims, objectives and strategy

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 This Act superseded the Treasury Minute of 2 December 1856 by which the Gallery was originally established.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 Gallery is recognised as an exempt charity under the provisions of the Charities Act 1993.

History and background

The National Portrait Gallery was founded in 1856 to collect and display portraits of eminent British men and women. The first acquisition to be registered was the portrait of Shakespeare 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. Today it is among the largest and most prestigious collections of portraits in the world.

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

The Primary Collection of paintings, sculpture, miniatures, drawings, prints and photographs contains some 10,400 portraits of the most eminent people in British history. Of these more than 4,100 are paintings, sculptures and miniatures, approaching 60% of which are regularly displayed. In addition, there are more than 6,300 works on paper, shown on a rotating basis of about 300 items a year.

In addition, the Gallery holds Reference Collections of the nation's famous and less famous faces. They are used for study and exhibition, and have been extensively reproduced in books and other publications. There are more than 320,000 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, and the Photographs Collection of more than 240,000 photographs and historic negatives. Increasingly the Collections are being made available on the Gallery's website. In addition, the Library contains 35,000 books and manuscripts.

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

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

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 that covers audit and compliance. The Gallery also has a development board to support fundraising initiatives. A list of Trustees during 2003-2004 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 operations of the Gallery with the support of a management team.

Under statute, the Comptroller & Auditor General is the auditor of the Gallery's consolidated accounts for the year 2003-2004. The audit fee in respect of this work was £18,500 (£18,000 in 2002-2003).

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 generate income to supplement government grants. This income is generated from activities such as sponsorship, corporate and individual membership schemes and publishing and trading activities. Grant-giving bodies provide welcome support for acquisitions and new projects. A Development Appeal Fund established in 1989 for major building work was most recently applied to the Ondaatje Wing development.

During 2003-2004 the Gallery undertook the following policy reviews: Vision and Objectives; Communications and Development; Collections; Displays, Exhibitions and Collections Management; Interpretation, Education and Access; and Resources and Services. These brought existing policies up to date and provide the framework for the Gallery's Business Plan.

The Gallery does not charge for general access to permanent Collection displays. 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. Earning revenue in addition to the government's Grant-in-Aid enables a wider public programme to be offered.

The Gallery is an equal opportunities employer. The development of working practices and a working environment that facilitate this, in particular with regard to the employment of disabled persons, are key objectives. 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.

In April 2003, the Gallery signed a three-year Funding Agreement for 2003-2006 with the Department for Culture, Media and Sport that sets out six core quantitative and three qualitative performance targets relating to audiences. Funding Agreement targets are reviewed annually and revised where appropriate. Reference is made to both the original and latest targets throughout the Foreword and Annual Report with the Gallery's performance against these targets in 2003-2004 (with comparators for previous years) detailed in the Annex.

The Vision and Objectives policy paper established six key strategic objectives for the Gallery's 2003-2004 business plan as follows

- to extend and broaden the range of audiences for the Gallery 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.

Review of performance

With the Gallery's profile having developed in recent years, particularly since the opening of the Ondaatje Wing in 2000, the Gallery was keen to ensure that the perception of the public reflected its extensive programme on offer. The Gallery therefore reviewed its visual identity during 2003 in consultation with visitors to the Gallery and other museums, Members and staff. The new visual identity was introduced for the *Cecil Beaton* exhibition and the Gallery's quarterly leaflet, an important information tool for communicating to both existing and potential audiences.

1.43 million people visited the Gallery during 2003-2004, the second highest attendance in the Gallery's history and an increase of 8% over the 1.32 million recorded in 2002-2003; this exceeded the 2003-2004 target of 1.28 million in the Funding Agreement with the Department for Culture, Media and Sport. Including the 231,000 visits (202,000 in 2002-2003) to the Gallery's three regional partners, total visitor numbers were 1.66 million compared to 1.52 million in 2002-2003, an increase of 9%.

While the intimate and personal nature of the Gallery's spaces, combined with the variety of work on permanent display and interest in the temporary exhibitions encourages many visitors to return, the success of the Gallery in attracting new audiences is illustrated by the 114,000 visitors in social categories C2, D or E who visited the Gallery during the year, double the 57,000 anticipated in the Funding Agreement. In recognition of the Gallery's commitment to access for visitors with disabilities, the Gallery was awarded the prestigious Gold Award in the Tourism for All category at the 2003 Excellence in England Tourism Awards. At 71,000, the number of children visiting the gallery was less than the 97,000 target under the Funding Agreement due to a change in the methodology from that previously employed for counting visits.

Supplementing the public programme, the Gallery's website continued to grow in popularity and to improve access to the Gallery's collections and work. The website registered more than 2.5 million user sessions during 2003-2004, a 93% increase on 2002-2003 and well above the original Funding Agreement target of 1.75 million. With 65% of all visits linked to searching the collection, this remains a very popular feature.

Collections

The Gallery continued its policy of acquiring and commissioning portraits of people who have made a significant contribution to the history and culture of the nation. Works of art are increasingly expensive and the generosity of individual donors, commercial sponsors and grant-giving bodies, such as the Heritage Lottery Fund and The National Art Collections Fund, are essential to supplement an acquisitions allocation that has not increased in twenty years.

The outstanding acquisition of the year was William Parry's great historical portrait of *Omai, Sir Joseph Banks and Dr Daniel Solander*, acquired jointly with the Captain Cook Memorial Museum, Whitby, and the National Museums and Galleries of Wales. The funding for the acquisition depended greatly on the generosity of a private donor, the Normanby Trust at Whitby, and The National Art Collections Fund. The many generous supporters of the appeal were led by the Garfield Weston Foundation, Flora Fraser and Peter Soros, Sir Christopher Ondaatje and Linda L. Brownrigg.

Other important historical acquisitions included George Romney's portrait of the flower painter Mary Moser (one of the two female founding members of the Royal Academy in 1768), the seventeenth-century statesman John Pym, a self-portrait of the low-life artist Egbert van Heemskerck, a nineteenth-century portrait of artist Philip Morris and the first ever Vanity Fair cartoon (of the Prime Minister Benjamin Disraeli).

Among many additions to the twentieth-century collection were David Bomberg's *Self-Portrait with Pipe* and an extraordinary image of the controversial Aleister Crowley. The Gallery benefited from the Acceptance-in-Lieu procedure in acquiring portraits of the novelist Anthony Powell, the poet Louis MacNeice and anti-apartheid campaigner the Rev. Trevor Huddleston. Generous gifts and bequests included a group of cartoons by Victor

Weisz, an expressionist plaster-relief self-portrait by Henryk Gotlib, and Wendy Hiller depicted in role as Sal Hardcastle in Greenwood's *Love on the Dole*.

Three works on paper were acquired for the contemporary collection: a charcoal drawing of the art critic and writer John Berger, David Hockney's pen-and-ink drawing of Lucian Freud, and a self-portrait etching by Stephen Conroy.

Four commissions were completed and displayed: the playwright and novelist Michael Frayn by former BP Portrait Award winner Jennifer McRae, the welfare economist Amartya Sen by Antony Williams, the Lindsay String Quartet by György Gordon and departing Director Charles Saumarez Smith by Tom Phillips. The sittings for the last were the subject of a film screened on Channel 4.

An exciting new three-year partnership with Deloitte as Contemporary Photographic Displays Partner has helped raise the level of financial support for new photographic acquisitions, allowing the purchase of four design-related subjects for the *Designer Faces* display during winter 2003-2004. Their support has also funded the first of eight films on contemporary photographers represented in the Collection, which are to be created over a three-year period for the *Woodward Portrait Explorer* in the IT Gallery. The first film features Terry O'Neill at work on a Deloitte-sponsored commission, a portrait of critic AA Gill.

Other important photographic acquisitions included an historic self-portrait of the 1850s by the leading topographical photographer Benjamin Brecknell Turner, a cabinet photograph of the pioneer of women's education, Dorothea Beale, the photographic archive of over 10,000 items of leading literary figures taken between 1909 and 1937 belonging to Lady Ottoline Morrell and two other large archives received from the estates of John Gay (mainly literary subjects from the 1940s and 1950s) and Bob Collins (show-business subjects of the late 1950s and early 1960s together with negatives from the 1970s of leading British artists in their studios). The Gallery also acquired fifteen photographs by Mario Testino of some of the subjects who featured in the 2002 *Mario Testino* exhibition.

Work in the Heinz Archive and Library, which celebrated its tenth anniversary in November 2003, continued to focus on improving services to the public and increasing access to the reference collection of prints and drawings and Gallery records. In all, 1,440 people visited the Archive and Library to pursue research during the year and staff responded to more than 2,263 portraiture-related queries.

With 9,098 items catalogued and 11,938 items digitised during the year (the latter with the assistance of funding from the Department for Culture, Media and Sport), more than 13% of the reference collection is now accessible electronically. During 2003-2004, more than 10,000 additional portraits were added to the website, which now has over 54,000 portraits, nearly 32,000 of which are illustrated; there are now over 33,000 portraits on the Woodward Portrait Explorer, with information on nearly 19,000 different sitters and artists. In January 2004, a new expanded edition of the Gallery's *Complete Illustrated Catalogue* was also published, encompassing every painting, drawing, miniature, print, photograph and sculpture in the main collection, amounting to over 10,500 entries, with more than 8,000 illustrations, recording the portraits of the greatest men and women in British history.

Conservation projects included a thorough survey of the Holbein Cartoon and the examination of a number of key Tudor works on panel using infrared reflectography, which has helped to illuminate the role of under-drawing in early panels. Frame Conservation also worked extensively at Montacute House developing a method of backboarding, housing and hanging portraits with a view to reducing the fluctuations of temperature and humidity within the frame of works on panel. This was also the final year of Radcliffe Trust funding for the frame conservation internship scheme that has seen four interns working at the Gallery to develop their frame conservation skills and techniques. On other research fronts, the Gallery continues to offer year-long fellowships in the History of Portraiture: Jan Marsh completed her year to advance work on representations of figures of African ancestry in Britain in the nineteenth century, while contributing greatly to the interpretation of two key paintings in the Gallery's collection that include black subjects; and Victor Morgan from the University of East Anglia began work on the relationship between reputation and portraits in the Tudor and Stuart periods. Work continued on a project to research and catalogue the mezzotints of the Restoration print publishers Alexander Browne, Richard Tompson and John Smith, a project part-funded by the Paul Mellon Centre for Studies in British Art, which also maintained its support for the research towards the *Mid-Georgian Portraits, 1760-1790* catalogue raisonné. Gallery staff also lectured nationally and internationally and contributed papers to symposia and to a large number of publications.

Displays and exhibitions

A major focus of the year at St Martin's Place was the re-opening in May 2003 of the Regency in the Weldon Galleries following the complete refurbishment and redisplay of the galleries, with enhanced interpretation and IT facilities. Funded by private donors, trusts and foundations and the Heritage Lottery Fund, the project represents the culmination of the Gallery's ten-year programme to renew the display of the collection.

Two other galleries were re-hung during the year: the Tudor Galleries reopened in September 2003, hung to include newly conserved portraits depicting Lord Burghley, Sir Nicholas Bacon and Lady Anne Pope and her children, with improved lighting and enhanced information; the temporary closure of the Early Twentieth-Century Galleries for maintenance also provided the opportunity to redisplay these spaces to give a chronological narrative to the period with an emphasis on the role of women in an age of social, scientific and technological change.

The Gallery once again provided a rich and diverse exhibition and special display programme at St Martin's Place. The exhibition programme for 2003-2004 commenced with *Julia Margaret Cameron*, the pioneering Victorian photographer, which continued to attract healthy visitor numbers as it had in 2002-2003. The summer *BP Portrait Award*, now in its twenty-third year, continued to attract strong talent and gain in popularity (being seen by 160,000 visitors in 2003). *Below Stairs: 400 Years of Servants' Portraits*, the first ever study of portraits of servants in Britain, in the winter of 2003-2004 brought together many items from private and public collections rarely seen before; the 41,000 visitors for the show a favourite with the press throughout its run, exceeded attendance, projections by 50%. Photography featured strongly with the launch in October 2003 of the *Schweppes Photographic Portrait Prize*, a new annual photographic competition over three years; the response was over 3,000 entries, of which sixty were selected for display. The spring 2004 retrospective of *Cecil Beaton: Portraits* featuring photographs from the 1920s to the late 1970s was seen by 127,600 visitors, making it the second most successful exhibition in the Gallery's history. Both *Below Stairs* and *Cecil Beaton* were also the subject of BBC documentaries. Other exhibitions during the year included *You Look Beautiful Like That*, photographs by the West African studio photographers Seydou Keïta and Malick Sidibé, and *A Gardener's Labyrinth: Portraits of People, Plants and Places*, comprising fifty photographs commissioned by the Gallery of influential British horticulturalists. The year ended with *We Are The People: Postcards from the Collection of Tom Phillips*, an exhibition of early twentieth-century postcards of ordinary people.

A varied temporary display programme continued throughout the year in the Studio, Book Shop and Balcony galleries and other spaces within the Gallery, including: *Circling the Square*, initiated in response to the 'World's Square for All' development of Trafalgar Square and attracting 68,000 visitors; *Self-Portrait UK*, a collaborative project with the Arts Council and Channel 4 which encouraged people from across the country to produce their own self-portraits; and photographic displays of the work of Patrick Lichfield and Terry O'Neill. *Heroes and Villains*, Gerald Scarfe's humorous look at heavyweight political figures including Elizabeth I and Margaret Thatcher as well as celebrities such as the Beckhams and Princess Diana, was also the subject of a BBC documentary. A special exhibit, *High Treason, Court of Criminal Appeal 1916: The Trial of Roger Casement*, was mounted around a large group portrait by Sir John Lavery on loan from the Government Art Collection, which had never before been on public display in London.

The Gallery's presence extended beyond London with ten shows touring to nineteen national and international venues, as well as displays from the collection at major regional galleries such as Sunderland Museum and Winter Gardens and the Graves Art Gallery, Sheffield. The Gallery remains a significant lender to museums and galleries both nationally and abroad, with works lent to 116 venues during the year; this included loans to 90 venues in England (compared to a Funding agreement target of 86), eight other United Kingdom venues and 20 overseas venues.

Having developed a number of ways of sharing the works in its Collection with audiences outside London, the Gallery has been at the forefront of regional initiatives within the museum community. A key strand of this strategy remains the Gallery's Regional Partnerships with the Bodelwyddan Castle Trust in North Wales, and with the National Trust at Montacute House in Somerset and Beningbrough Hall in North Yorkshire. In all, 231,000 visitors attended these venues during 2003-2004 compared to 202,000 in 2002-2003. At Bodelwyddan Castle, an imaginative scheme funded by the Heritage Lottery Fund with capital funding from the Department for Culture, Media and Sport opened in April 2003. The interactive displays in the new permanent galleries have proved a popular addition among targeted audiences of families and school groups, with the computer interactive facility based on the studio of the photographer Camille Silvy proving especially successful. Work has also been taken forward with the National Trust on the planned refurbishment of the displays at Beningbrough Hall, with Casson Mann having been appointed as the designers.

Access, interpretation and education

The Gallery continues to offer learning opportunities to a wide range of audiences, including school groups, families, adults, academic groups and visitors with disabilities. In all, 65,000 learners participated in on-site and outreach classes, lectures and other activities during 2003-2004 (45,000 in 2002-2003).

More than 15,000 pupils and students took part in organised activities during 2003-2004, with a further 20,000 visiting the Gallery on their own initiative. These groups use the Collections to study history and art, and take part in practical art and photography workshops. Outreach sessions from the Gallery were also extended to the schools at the Chelsea & Westminster and Royal Brompton Hospitals, with one of the Gallery's Regency Partners, Towers Perrin, supporting an exhibition of the children's work. With the Gallery increasingly fully booked for school visits, this has spurred the development of video-conferencing sessions; with the support of the Dulverton Trust, the Gallery offers regular teaching sessions for schools from the north of Scotland to Cornwall. Educational resources are also made available via the Gallery's website. In all 33,000 children participated in organised on-site and outreach educational programmes compared to the Funding Agreement target of 25,000, with a further 4,000 participating in programmes funded from Strategic Commissioning funds.

The Gallery's talks and events programme continued to attract large audiences, with the series linked to the *Below Stairs* and *Cecil Beaton* exhibitions being particularly well received. The Gallery also worked closely with the Poet Laureate to develop *Interrupted Lives*, a series on writers who died before their canon of work was complete; featured in the Guardian, this will be published in book form in 2004. There has been greater emphasis on activities for families and new audiences, with a series of workshops on African music, a special evening event celebrating Indian performance and dance and a lecture series linking contemporary architecture and portraiture. The past year also saw several conferences, including an event organised in conjunction with the Paul Mellon Centre for Studies in British Art and a conference on the philosophy of the face with the Royal College of Art.

With the support of the John Ellerman Foundation, the Vodafone UK Foundation and Carlton TV Trust, the Gallery's access programme continued to improve physical and intellectual access for disabled and disadvantaged groups and to reach new audiences. For example, an outreach programme in schools has raised awareness of the Gallery's services and collections for British Sign Language (BSL) users and hearing-impaired children and their families. As a result, tours, talks and family sessions led by deaf artists and interpreters have now been specially designed to introduce groups to the Gallery's collections, while BSL-interpreted talks have become a regular and successful feature of the Gallery's programme of activities. A series of visual literacy art sessions was also run for young people from Special Educational Needs (SEN) schools, exploring portraiture, pose and composition to develop their ideas, communication and life skills. These sessions have led to a certificated course developed with tutors at Westminster Kingsway College as part of the College's Independent Living Programme. The success of the access programme was recognised with three awards in 2003: the London Tourist Board's Access for All Award, the ADAPT Trust's top prize in its Excellence in Access Awards and an award from the North-West London Business Partnership for the development of further training for SEN teachers.

The Gallery also succeeded in attracting Strategic Commissioning funding from the Department for Culture, Media and Sport and Department for Education and Skills to develop the educational aspect of its Regional Partnerships further. The resulting *People, Portraits and Places* programme included successful collaborations with two of the Gallery's established Regional Partners, Montacute House and Beningbrough Hall, as well as new partnerships with Dove Cottage in Cumbria, Sheffield Museums & Galleries Trust and Sunderland Museum and Winter Gardens. Funding, albeit at a lower level, has now been offered by the Department for Culture, Media and Sport for the next two years.

Management and resources

Following a review of the Gallery's internal governance and decision-making processes, a series of recommendations have been drawn up for implementation over the next two years. These include: establishment of a management sub-committee responsible for the detailed consideration of planning, finance and risk management; setting terms of reference for all decision-making groups; formalising the Gallery's communications policy, including consultation with stakeholders; and implementing a Gallery-wide framework of performance measurement and evaluation. During 2003-2004, a five-year corporate plan was also formulated for 2004-2009; this plan reaffirms the six core strategic objectives established in 2003-2004 and articulates the range of initiatives, risks, resource requirements and performance measures that contribute to their achievement.

The Gallery's information and communications systems infrastructure continues to be strengthened with the aim of delivering savings in time, cost and effectiveness. During the year, broadband connection to the internet was established for staff, providing faster access and generating cost savings. At the same time, the email system was replaced with a Microsoft Exchange server, improving functionality and security. The introduction of a replacement fundraising system has improved fundraising administration and effectiveness by providing facilities for tracking and analysing prospects, donors, events and memberships. Loans and acquisitions modules in the collections management database were also implemented and development of conservation and location modules started. Operational enhancements to the Gallery's financial system in 2003-2004 have enabled the majority of payments to be made directly to payees' bank accounts and budget managers have online access to real-time financial information.

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 income received for capital and future projects. Although capital receipts are removed in the Income and Expenditure Statement, the statement still includes income received in advance for projects occurring in 2004-2005 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, 2003-2004 has been another sound year in terms of achieving internal financial targets as well as the performance targets agreed with the Department for Culture, Media and Sport. With the level of Grant in Aid the Gallery receives due to increase from 2004-2005, rather than delay the necessary investment, Investment and Contingency Funds were applied during 2003-2004 to bridge the funding gap. However, the great success of *Cecil Beaton* and other charging exhibitions together with additional fundraising have enabled some replenishment of the Investment and Contingency Fund in line with the Reserves Policy described on page 10.

Statement of Financial Activities

After an increase of 6% in revenue Grant-in-Aid in 2001-2002, revenue grant funding (excluding grants for capital costs) has remained at standstill for the two subsequent years through to 2003-2004. Combined with an increase in visitor numbers, this meant Grant-in-Aid per visitor to St Martin's Place decreased from £4.35 per visitor in 2002-2003 to £4.01 in 2003-2004 (£3.45 per visitor including visits to the Gallery's regional partners, compared to £3.77 in 2002-2003). Compared to planned Grant-in-Aid per visitor of £4.48 under the Funding Agreement with the Department for Culture, Media and Sport, the Gallery continues to be highly effective in these terms.

In light of the real-terms decrease in Grant-in-Aid, the generation of other income remained crucial to sustaining the breadth and quality of the Gallery's activities. In 2003-2004, 47% of total revenue income (excluding income for building projects and donated acquisitions) came from sources other than Grant-in-Aid. Income from exhibition sponsorship and charges for entry to temporary exhibitions continues to remain variable, being dependent upon the nature of the exhibitions. Despite the success of *Cecil Beaton*, the second most popular exhibition in the Gallery's history after *Mario Testino*, income relating to exhibitions (including sponsorship) was down 23% in comparison to the previous year which included the end of the *Mario Testino* exhibition.

Trading income, which during 2002-2003 had been boosted by the success of the *Great Britons* book and from receipts for the *New Dictionary of National Biography* as well as *Mario Testino*, was 16% less in 2003-2004; as a result, net trading income fell from £0.6 million in 2002-2003 to £0.4 million. A significant factor has been the rapidly changing marketplace for fine art images, where digitisation has led to easier and quicker picture research and significantly more efficient delivery systems. Picture Library income from traditional sources, such as black and white prints and the hire of colour transparencies, has therefore declined although sales of colour prints have grown.

Benefiting from interest in *Cecil Beaton*, income from Gallery hire was up by 56% while the income from the catering franchise rose by 6% as a result. After experiencing a 32% reduction in corporate membership income the previous year due to the difficult economic climate, income was up 10% on 2002-2003 with several new companies joining the Gallery's corporate partnership scheme.

Grants and other restricted income totalling £1.5 million funded a variety of projects, as described previously. Donations for acquisitions included £142,000 from various benefactors towards the purchase of the portrait of *Omai, Sir Joseph Banks and Dr Daniel Solander* acquired jointly with the Captain Cook Memorial Museum and the National Museums and Galleries of Wales, £89,000 from the Heritage Lottery Fund and National Art Collections Fund toward the portrait of *Mary Moser* together with funding for commissions from the Jerwood Charitable Trust, Deloitte and the estate of Elizabeth Weisz. The estimated value of donated objects was £87,000 (£289,000 in 2002-2003). Individual giving income from Patrons and Members increased by 10% on the previous year. In all, self-generated income for current operations (excluding Grant in Aid and funding for acquisitions and other fixed assets) was £31,000 more than in 2002-2003.

Overall resources expended by the Gallery in 2003-2004 increased by 7% compared to 2002-2003. Staff costs increased by 10% on the previous year as the Gallery's manpower plan was implemented in anticipation of increased Grant-in Aid from 2004-05; as a proportion of total resources expended, staff costs increased from 44% to 45%.

Balance sheet

The brought forward Unrestricted Funds balance of £10.8 million decreased by £0.1 million during the year. The closing balance was £10.7 million of which £8.5 million represents the capital assets funded from self-generated income and £1.3 million has been designated as an investment fund for projects to be undertaken in future years. In order to reflect the fact that acquisitions for the collection are inalienable and therefore restricted, the £0.4 million value of internally funded acquisitions has also been designated and transferred to Restricted Funds. In line with the Reserves Policy agreed by Trustees, Retained Surpluses have been maintained at the level of £0.9 million with the balance transferred to the Investment and Contingency Fund.

The brought forward Restricted Funds balance of £42.5 million decreased by £2.4 million. The closing balance was £40.1 million of which £36.5 million represents the vested assets and the capital assets financed by the Development Appeal Fund and the Heritage Lottery Fund and £2.9 million represents donations for capitalised acquisitions (including the value of donated objects). The balance of £0.7 million represents funds donated and available for the restricted purposes of grant-funded projects yet 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 2004. In accordance with a Treasury directive, the Gallery has adopted a policy of using National Statistical Office indices to adjust the depreciated values of all assets in the years when they are not re-valued.

Performance against targets

An analysis of performance against the core targets agreed with the Department for Culture, Media and Sport under the Funding Agreement is set out in the Annex on page 13.

Payment of creditors

The Gallery follows the Treasury's guidance on payment of invoices. In 2003-2004 the Gallery paid approximately 71% of its invoices within the target of 30 days compared to 72% in 2002-2003.

Investment policy

Investments are held in accordance with the Trustees Act 2000. Surplus cash is held on deposit with National Westminster Bank Plc, which provides daily access while earning longer-term Money Market rates, providing a rate of return together with the liquidity required for the payment of current liabilities and future obligations. The Gallery also has a total of £33,000 in Charinco and COIF common investment funds (see Note 7).

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 67% in 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. At present, the Gallery has neither endowment nor unrestricted bequest funds.

General Funds need to be sufficient to cover the Gallery's cashflow requirements, unforeseen expenditure, fluctuations in income and capital charging. The balance of £0.9 million in Retained Surpluses together with the £0.25 million held in the Investment and Contingency Fund (as set out below) equates in total 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 such that this overall level of reserve is maintained.

The Trustees have designated an Investment and Contingency Fund to finance non-recurring expenditure which

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

£0.2 million of the £0.8 million balance as at 31 March 2004 has been allocated to specific projects for these purposes in 2004-2005. Of the £0.6 million balance remaining at least £0.25 million 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 level of retained surpluses is reviewed by Trustees four times a year. The reserves policy is reviewed by Trustees once a year.

Related parties

The Gallery's sponsor, the Department for Culture, Media and Sport, is regarded as a related party. During the year, the Gallery has had various material transactions with the Department and with other entities for which the Department is regarded as the parent Department. 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 has been 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 included provision for these new non-cash costs in the budgets allocated to public sector bodies such as the Gallery. The Government's objectives are to reflect the full economic cost of providing public services, to provide better information for decision taking and also to act as an incentive for the management of assets and investment.

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

As capital charges are affected by the 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 also agreed to cover from the Department's own funds until 2005-2006 any increase in capital charges arising from the use of indices in the years between full professional revaluations on inalienable land and buildings, such as the main building of the Gallery. There is no guaranteed protection thereafter and variations on other assets liable to capital charges are not covered.

Accordingly, investment decisions since 1 April 2003 have therefore had to take account of the impact of capital charges and the availability of provision within the resource allocation from the Department. From 2003-2004, the Gallery also needs to manage any fluctuations arising from variations in the value of assets on indexation, apart from those eligible for cover by the Department.

The Board of Trustees and professional advisers

Between 1 April 2003 and 8 July 2004, the date on which the accounts were signed, the Trustees were

Professor Robert Boucher, CBE, FEng (from June 2003)

Professor David Cannadine, FBA, FRSL (Vice Chair)

Ms Amelia Fawcett, CBE # (Trustee * from June 2003)

Ms Flora Fraser

Sir Max Hastings

Professor Ludmilla Jordanova

Sir Christopher Ondaatje, CBE, OC #

Mr Tom Phillips, CBE, RA

Professor The Earl Russell, FBA

Sir David Scholey, CBE (Chair) * #

Ms Sara Selwood *

Ms Alexandra Shulman

Sir John Weston, KCMG * #

Baroness Willoughby de Eresby, DL (to June 2004)

* 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 is Amelia Fawcett.

ex officio

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

Lord President of the Council - The Rt. Hon. John Reid (to June 2003), The Rt. Hon. the Lord Williams of Mostyn QC (from June 2003 to September 2003 - deceased) and The Rt Hon Baroness Amos (from October 2003).

The Gallery maintains a register of interests for Trustees, which is open to the public. The documents can be accessed in The Heinz Archive and Library.

The Director of the National Portrait Gallery is Sandy Nairne.

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

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 and 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

Sir David Scholey
Chair of Trustees

8 July 2004

Annex to the Foreword and Annual Report for the year ended 31 March 2004

Performance against 2003-2004 Funding Agreement targets

The Gallery's Funding Agreement with the Department for Culture, Media & Sport contains a mix of qualitative and quantitative performance indicators. Targets are reviewed annually and revised where appropriate. Performance is given here against the quantitative targets only; further reference is made to performance within the Foreword and Annual Report.

Core target	Note	2000-2001 Actual	2001-2002 Actual	2002-2003 Actual	2003-2004 Target	2003-2004 Actual
Total number of visitors (000s)	1	1,219	1,479	1,319	1,275	1,426
Number of child visitors (000s)	2	62	90	93	97	71
Number of C2DE visitors (000s)	3				57	114
Number of children in organised educational programmes (000s)	4				25	33
Number of website visits (000s)	5	3,033	5,133	6,293	1,750	2,578
Number of venues in England to which objects from the Collection are loaned	6				86	90

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

Note 2 2003-2004 lower than prior years and target due to change in the methodology for counting visits

Note 3 New for 2003-2004

Note 4 New for 2003-2004; includes participants in both on-site and outreach programmes

Note 5 The target and actual from 2003-2004 reflect the number of unique users visiting the website, while figures for prior years are based on the total number of visits to specific pages.

Note 6 New for 2003-2004

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 Gallery's financial activities during the year and of its financial position at the end of the year.

In preparing the 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

Sir David Scholey
Chair of Trustees

8 July 2004

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

Statement on Internal Control

Scope of responsibility

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

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

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Gallery's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place at the Gallery for the year ended 31 March 2004 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Capacity to handle risk

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

The risk and control framework

Risk management has been embedded within the organisation through the business planning and project management procedures developed during 2003-2004, which ensure that risks to achieving business plan initiatives are identified from the point of proposal and are managed by having risk as a standing item on project team agendas. The risk priorities for the Gallery during 2003-2004 were the

- potential terrorist threat in London and the need for a robust Business Continuity Plan; and
- economic slowdown and mitigating its potential effect on self-generated income.

The Gallery has worked to strengthen planning and management in order to produce an effective mix of public programmes while meeting increasing statutory obligations and the more challenging targets within the 2003-2006 Funding Agreement with the Department for Culture, Media and Sport. A priority for 2004-2005 is to improve the Gallery's evaluation of its activities to ensure that external stakeholders' needs are being met.

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

¹ Comprising the Director, the Head of Finance and Planning, the Chief Curator, the Head of Collections Management & Exhibitions, the Head of Education, the Director of Communications & Development, the Head of Trading and the Head of Administration.

The Audit and Compliance Committee reviews the risk register and actions taken three times per year. Since February 2004, the register has been summarised so as to allow the Committee to focus on the most significant risks, in particular strategic and business environment risks. The Chair of the Audit and Compliance Committee provides quarterly updates to the Board of Trustees on the effectiveness of risk management.

Review of effectiveness

As Accounting Officer and Chair of Trustees, we have joint responsibility for reviewing the effectiveness of the system of internal control. Our review of the effectiveness of the system of internal control is informed by the work of the

- Planning Team;
- Audit and Compliance Committee;
- Internal Audit;
- Executive managers within the Gallery, who have responsibility for the development and maintenance of the internal control framework; and
- Comments made by the external auditors in their management letter and other reports.

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

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

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

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

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

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

Significant internal control problems

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

Sandy Nairne
Accounting Officer

Sir David Scholey
Chair of Trustees

8 July 2004

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 19 to 39 under the Museums and Galleries Act 1992. These financial statements have been prepared in the form directed by the Secretary of State for Culture, Media and Sport and approved by the Treasury; they have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 24 to 39.

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

As described on page 14 the Board of Trustees and the Director of the National Portrait Gallery, as the Accounting Officer, are responsible for the preparation of the financial statements and for ensuring the regularity of financial transactions funded via Parliament. The Board of 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 I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

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, income and resources funded via Parliament 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 other contents of the Foreword and Annual Report are not consistent with the financial statements, if the 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 pages 15 to 16 reflects the Gallery's compliance with Treasury's guidance on the 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. I am not required to consider, nor have I considered, whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Gallery's corporate governance procedures or its risk and control procedures.

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, disclosures and regularity in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Board of Trustees and the Director in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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, income and resources funded via Parliament have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion

- the financial statements give a true and fair view of the state of affairs of the National Portrait Gallery as at 31 March 2004 and of its incoming resources, application of resources and cash flows for the year then ended and have been properly prepared in accordance with the Museums and Galleries Act 1992 and directions made by the Secretary of State for Culture, Media and Sport; and
- in all material respects the expenditure, income and resources funded via Parliament 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

19 July 2004

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

The maintenance and integrity of the National Portrait Gallery's website is the responsibility of the Accounting Officer; the work carried out by the auditors does not involve consideration of these matters and accordingly the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Summary Income and Expenditure Account for the year ended 31 March 2004

	2004	2003
	£000	£000
Total income from continuing operations	11,091	12,449
Less: Operating expenditure	11,410	10,701
Total surplus/(deficit) for the year	(319)	1,748
(Less)/add: Net capital income	74	(1,224)
Operating surplus/(deficit) on revenue income and expenditure	(245)	524

Net capital income represents income after depreciation charged in the year designated for capital projects. This includes £0.375m of restricted income (£2.266m in 2002-2003) and £0.776m of unrestricted income (£0.162m in 2002-2003), before total depreciation of £1.225m (£1.204m in 2002-2003).

The notes on pages 24 to 39 form part of these accounts.

Statement of Financial Activities for the year ended 31 March 2004

	Notes	Unrestricted Funds £000	Restricted Funds £000	Total 2004 £000	Total 2003 £000
Incoming resources					
Grant in Aid	2	5,712	0	5,712	5,732
Charitable activities					
Exhibitions income		657	0	657	990
Educational income		32	0	32	24
Activities to generate funds					
Sponsorship income		0	515	515	373
Trading income	18	2,081	0	2,081	2,475
Gallery hire income		250	0	250	160
Corporate members		103	0	103	94
Individual giving		136	0	136	124
Catering franchise		160	0	160	151
Other fundraising income		57	0	57	72
Donations					
Grants and donations		88	446	534	175
Donated acquisitions	1(d)	0	87	87	289
Donations for acquisitions		0	258	258	740
Donations for building projects		0	0	0	508
Lottery income		0	127	127	304
Legacies		37	30	67	50
Investment income	3	72	3	75	114
Other income		235	5	240	74
Total incoming resources		9,620	1,471	11,091	12,449
Resources expended					
Costs of generating funds					
Fundraising	5	421	16	437	408
Trading activities	5	1,843	39	1,882	2,040
		2,264	55	2,319	2,448
Net incoming resources available for charitable application		7,356	1,416	8,772	10,001
Charitable expenditure					
<i>Activities in furtherance of the charity's objectives</i>					
Collections management	5	2,714	335	3,049	2,844
Research & documentation	5	818	57	875	772
Exhibitions & display	5	1,523	959	2,482	2,234
Education	5	484	224	708	564
Publicity & information	5	792	114	906	805
Management & administration	5	1,057	14	1,071	1,034
Total charitable expenditure		7,388	1,703	9,091	8,253
Total resources expended		9,652	1,758	11,410	10,701

	Notes	Unrestricted Funds £000	Restricted Funds £000	Total 2004 £000	Total 2003 £000
Notional costs					
Cost of capital	1(l)	812	0	812	1,256
Net incoming/(outgoing) resources after notional costs		(844)	(287)	(1,131)	492
Reversal of notional costs		812	0	812	1,256
Net incoming resources for the year before transfers		(32)	(287)	(319)	1,748
Transfers		(532)	532	0	0
Net incoming resources for the year after transfers		(564)	245	(319)	1,748
Gains/(losses) on investments	7	1	0	1	(3)
Indexation adjustments/revaluation		442	(2,707)	(2,265)	585
Net movement in funds		(121)	(2,462)	(2,583)	2,330
Fund balances brought forward at 1 April		10,803	42,512	53,315	50,985
Fund balances carried forward at 31 March		10,682	40,050	50,732	53,315

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 24 to 39 form part of these accounts.

Balance Sheet as at 31 March 2004

	Notes	£000	2004 £000	2003 £000
Fixed assets				
Tangible assets	6		47,900	50,255
Investments	7		33	32
			47,933	50,287
Current assets				
Investments	7	0		116
Stocks		720		706
Debtors and prepayments	9	865		876
Cash at bank and in hand		2,149		2,119
		3,734		3,817
Current liabilities				
Creditors (amounts falling due within one year)	10	935		789
Net current assets				
			2,799	3,028
Net assets				
			50,732	53,315
Represented by				
Restricted funds	11		40,050	42,512
Unrestricted funds				
Designated funds	11		9,806	9,927
General funds	11		876	876
Total funds			50,732	53,315

The notes on pages 24 to 39 form part of these accounts.

Sandy Nairne
Accounting Officer

Sir David Scholey
Chairman of Trustees

8 July 2004

Cash Flow Statement as at 31 March 2004

	Notes	2004 £000	2003 £000
Net cash inflow from operating activities	17(a)	1,012	2,307
Capital expenditure and financial investment	17(b)	(1,173)	(3,409)
Management of liquid resources	17(b)	116	927
Return on investments and servicing of finance	17(b)	75	114
(Decrease)/increase in cash in the year		<u>30</u>	<u>(61)</u>

The notes on pages 24 to 39 form part of these accounts.

Notes to the Accounts

1 Accounting policies

a Basis of accounting

The accounts have been prepared under the historic cost convention modified to include the revaluation of land and buildings, and the revaluation of listed investments to market value at the balance sheet date. The accounts comply with the Statement of Recommended Practice 2000, Accounting and Reporting by Charities, applicable accounting standards and the 2003-2004 Accounts Direction issued by the Department for Media, Culture and Sport. The accounts include the Grant-in-Aid account and two trust funds administered by the Gallery (the Dame Helen Gardner bequest and the NPG2000 Fund) and exclude the American Friends of the National Portrait Gallery (London) Foundation Inc, a US grant-giving organisation with 501 (c) (3) tax status, over which the Gallery has no direct control. The Gallery is recognised as an exempt charity under the provisions of the Charities Act 1993.

b Incoming resources

In general, income is accounted for on a receivable basis. Sponsorship income is recognised when the conditions for receipt have been met.

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

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

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

Indicative asset lives are as follows

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 dependants' 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.

1 Notional costs

In accordance with Treasury guidance, notional costs of capital (calculated as 3.5% 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. For 2002-2003, the rate was 6%.

2 Grant in Aid

	2004	2003
	£000	£000
Running costs	5,462	5,462
Capital costs	250	270
	<u>5,712</u>	<u>5,732</u>
Comprising: Request for resource	<u>5,712</u>	<u>5,732</u>

£5,712,000 of Grant-in-Aid has been received during the year. This money is available for running costs, capital improvements and collection purchases; of this, £305,000 is allocated by the Gallery towards the latter. An additional amount of £296,904 was received from DCMS/DfES for the funding of the Strategic Commissioning project.

3 Investment income

	2004	2003
	£000	£000
Interest	73	112
Investment dividends	2	2
	<u>75</u>	<u>114</u>

4 Net outgoing resources before transfers

is stated after charging

	2004	2003
	£000	£000
a Auditors' remuneration	19	18
b Operating lease rentals on land and buildings	42	42
c Operating lease rental on fixtures & equipment	30	30

5 Total resources expended

	Staff costs	Other direct costs	Depre- ciation	Allocated support costs	2004	2003
	£000	£000	£000	£000	Total	Total
					£000	£000
Fundraising	265	142	9	21	437	408
Trading activities	749	975	65	93	1,882	2,040
Collections management	1,936	410	384	319	3,049	2,844
Research & documentation	589	68	50	168	875	772
Exhibitions & display	475	837	606	564	2,482	2,234
Education	421	134	80	73	708	564
Publicity & information	150	742	0	14	906	805
Management & administration	589	399	31	52	1,071	1,034
	<u>5,174</u>	<u>3,707</u>	<u>1,225</u>	<u>1,304</u>	<u>11,410</u>	<u>10,701</u>
Add: salaries capitalised	65					
Total salaries	<u>5,239</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.

5 Total resources expended (continued)

a Staff costs

	2004	2003 (Restated)
	£000	£000
Staff costs during the year amounted to		
Wages and salaries	4,285	3,993
Temporary/Agency staff	115	39
National Insurance	315	266
Pension	524	479
	<u>5,239</u>	<u>4,777</u>

Prior year figures have been restated to include temporary/agency staff.

Pensions

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme in which 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 2003. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk). For 2003-2004, employers' contributions of £519,000 were payable to the PCSPS (2002-2003 £479,000) at one of four rates in the range 12 to 18.5 per cent of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. Rates will remain the same next year, subject to revalorisation of the salary bands but will increase from 2005-2006. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

From 1 October 2002, civil servants may be in one of three statutory based 'final salary' defined benefit schemes (classic, premium and classic plus).

The Schemes are unfunded with the costs of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium and classic plus are increased annually in line with changes in the Retail Prices Index.

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

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

In addition, employers' contributions of £4,900 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 £477, 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.

Numbers of Employees

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

	2004	2003
£50,000 - £60,000	2	2
£60,001 - £70,000	0	0
£70,001 - £80,000	1	1

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

	Permanent staff	Temporary staff	Managerial staff	Capitalised staff costs	2004 Number	2003 (Restated) Number
Fundraising	11	2	1	0	14	10
Trading activities	34	3	1	0	38	37
Collections management	80	3	0	3	86	83
Research and documentation	14	2	8	0	24	16
Exhibitions and display	17	8	1	0	26	21
Education	8	158	1	0	167	203
Publicity and information	1	1	0	0	2	2
Management and administration	23	2	2	0	27	22
	<u>188</u>	<u>179</u>	<u>14</u>	<u>3</u>	<u>384</u>	<u>394</u>

Director

The remuneration of the Director, Sandy Nairne, was £80,000 plus a non-consolidated bonus of £8,000 and employer's pension contribution of £14,800 (from November 2002, the date the Director joined the Gallery, to March 2003, his remuneration and employer's pension contributions was £32,667 and £6,043 respectively). Since September 1998, the Director's contract of employment has been on the same basis as other Gallery employees.

The Director's salary and pension entitlements as at 31 March 2004 were as follows

Salary incl. Bonus	Real increase in pension	Total accrued	CETV at 31 March 2003	CETV at 31 March 2004	Employee contri- butions transfer-in	Real increase in CETV after adjustment for and changes in market investment factors
£000	£000	pension at age 60 at 31 March 04 £000	£000	£000	£000	£000
88	0 - 2.5	15 - 20	183	212	2.5 - 5	16

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

Director's Pension: The above table shows the member's cash equivalent transfer value (CETV) accrued at the beginning and the end of the reporting period. A CETV is a payment made by the pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The CETV 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.

The CETV figures, and from 2003-2004 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the CSP arrangements and for which the CS Vote has received a transfer payment commensurate to the additional liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing years of pension service in the scheme at their own cost. CETV are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

The last column above reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including 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.

b Trustees

The trustees neither received nor waived any emoluments during the year (also in 2002-2003). Expenses reimbursed to or paid on behalf of two trustees amounted to £586 (£765 in 2002-2003).

Trustees are normally appointed to serve for a period of 5 years with the possibility of renewal at the end of that period.

6 Tangible fixed assets

	Land and buildings £000	Plant and Machinery £000	Furniture & equipment £000	Assets under construction £000	Collection assets £000	Total £000
Valuation/cost at 1 April 2003	43,419	3,321	1,468	1,145	2,096	51,449
Additions	0	90	39	229	780	1,138
Disposals	0	0	(35)	0	0	(35)
Revaluation adjustment	(3,178)	(90)	(45)	0	0	(3,313)
Transfer of assets	1,033	0	32	(1,065)	0	0
Valuation/cost at 31 March 2004	41,274	3,321	1,459	309	2,876	49,239
Depreciation at 1 April 2003	0	0	1,195	0	0	1,195
Disposals	0	0	(34)	0	0	(34)
Depreciation	797	214	215	0	0	1,225
Indexation adjustment	0	0	(37)	0	0	(37)
Revaluation	(797)	(214)	0	0	0	(1,011)
Depreciation at 31 March 2004	0	0	1,339	0	0	1,338
Net book value at 31 March 2004	41,274	3,321	120	309	2,876	47,900
Reclassification	(6,034)	6,034	0	0	0	0
Net book value at 31 March 2004 after reclassification	35,240	9,355	120	309	2,876	47,900
Net book value at 31 March 2003	43,419	3,321	274	1,145	2,096	50,255

	Land and buildings £000	Plant and Machinery £000	Furniture & equipment £000	Assets under construction £000	Collection assets £000	Total £000
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The net book value at 31 March 2004 represents fixed assets for

Charitable activities	31,499	8,490	35	309	2,876	43,209
Other activities	3,741	865	85	0	0	4,691
Total	35,240	9,355	120	309	2,876	47,900

All the Gallery's land and buildings were revalued in accordance with the RICS Appraisal and Valuation Manual by the firm of chartered surveyors, ATS Weatheralls, at 31 March 2004, at which time their values were increased overall to £44.2m. 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).

Reclassification: In accordance with Financial Reporting Standard 15 - Tangible Fixed Assets, where a fixed asset comprises two or more major components with substantially different economic lives, each component should be accounted for separately for depreciation purposes and depreciated over its useful economic life. The valuers, ATS Weatheralls, identified three separable material components within land and buildings, which have different remaining asset lives as at 31 March 2004: Structural - 50 years, Fit out - 25-30 years and Plant & Machinery - 20-25 years. Amounts relating to plant and machinery, which were included in the land and buildings category, have now been transferred to plant and machinery. Structural and fit-out costs are disclosed under the land and buildings category.

St Martin's Place: The main Gallery at St. Martin's Place was transferred from 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 £43.7m and has been revalued at 31 March 2004 on a depreciated replacement cost of £37.1m

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 1988-1989 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. These properties have been revalued at 31 March 2004 on an existing use basis at £7.1m, 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 valued at 31 March 2004 at £0.47m at existing use. The open market value of the lease at 31 March 2004 was in the region of £18,000.

7 Investments

Fixed asset investments

	Charinco £000	COIF £000	2004 £000	2003 £000
Market value at 1 April	18	14	32	35
Net gain/(loss) on revaluation	(1)	2	1	(3)
Market value at 31 March	17	16	33	32
Historical cost at 31 March	13	4	17	17
Unrealised investment gains at 31 March	4	12	16	15

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

	2004	2003
	£000	£000
Investment assets in the UK	33	32
Investment assets outside the UK	0	0
	<u>33</u>	<u>32</u>

Current asset investments

The nil balance under Investments (2002-2003 £116,000) is due to the fact that the cash deposit balance of the NPG 2000 Trust Fund classified as a current investment was transferred to the Gallery and closed down during the year.

8 The role of the 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 in general funds which ensures that an amount equivalent in total to three-quarters of the Gallery's average stock levels and 5% of its annual expenditure is held in general funds.

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
At 31 March 2004	£000	£000	£000		
Sterling Floating	1,916	0	0	3.3%	
Fixed		119	0	3.0%	1 month
US\$ Currency	112	0	0	0.0%	
Euro Currency	2	0	0		
Other	0	0	33		
	<u>2,030</u>	<u>119</u>	<u>33</u>		
At 31 March 2003					
Sterling Floating	2,010	0	0	4.4%	
Fixed	0	116	0	3.6%	1 month
US\$ Currency	108	0	0	0.0%	
Euro Currency	1	0	0		
Other	0	0	32		
	<u>2,119</u>	<u>116</u>	<u>32</u>		

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

Reconciled to the account

	2003-2004 £000	2002-2003 £000
Fixed asset investments	33	32
Current asset investments	0	116
Cash at bank	2,149	2,119
Total	<u>2,182</u>	<u>2,267</u>

Foreign currency risk

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

9 Debtors and prepayments

	2004 £000	2003 £000
Trade debtors	347	364
Less provision for bad debts	(5)	(1)
	342	363
Other debtors	259	395
Prepayments	19	0
Accrued income	233	0
Tax recoverable	12	118
	<u>865</u>	<u>876</u>

10 Creditors and accruals

Creditors falling due within one year

	2004	2003
	£000	£000
Trade creditors	0	72
Other creditors	17	49
Taxation and social security	157	95
Accrued expenses	626	541
Deferred income	135	32
	935	789
of which creditors for capital expenditure	45	170

11 Statement of funds

	Note	Balance at 1 April 2003	Income	Expenses	Net gains/losses	Transfers	Balance at 31 March 2004
		£000	£000	£000	£000	£000	£000
Unrestricted funds							
<i>Designated funds</i>							
Collections purchase fund	12	65	0	0	0	(48)	17
Collections designated fund	12	0	418	0	0	(418)	0
Capital projects reserve fund*	12	8,081	358	(360)	442	0	8,521
Investment and contingency fund	12	1,230	0	(593)	0	175	812
Deferred projects fund	12	551	0	(439)	0	344	456
Total designated funds		9,927	776	(1,392)	442	53	9,806
General funds							
Retained surpluses		876	8,844	(8,260)	1	(585)	876
Total unrestricted funds		10,803	9,620	(9,652)	443	(532)	10,682
Restricted funds							
Development projects fund	13	20,952	0	(586)	(2,017)	0	18,349
Capital reserve fund (Non-donated assets)	13	11,033	0	(85)	3,031	0	13,979
Capital reserve fund (donated assets)	13	8,093	0	(194)	(3,721)	0	4,178
Capitalised acquisitions fund	13	2,096	375	0	0	405	2,876
Total capital reserve funds*		42,174	375	(865)	(2,707)	405	39,382
Sponsorships/donations	13	321	1,088	(893)	0	146	662
NPG 2000 fund	13	0	3	0	0	(3)	0
Dame Helen Gardner Bequest	13	17	5	0	0	(16)	6
		17	8	0	0	(19)	6
Total restricted funds		42,512	1,471	(1,758)	(2,707)	532	40,050
Total funds		53,315	11,091	(11,410)	(2,264)	0	50,732

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

12 Designated funds

	£000	2004 £000	2003 £000
<i>Collections purchase fund</i>			
Purchases during 2003-2004 for the enhancement of the Primary collection which were funded by the Grant-in-Aid allocation amounted to £352,000 (£379,000 in 2002-2003). Movements on the reserve were as follows			
Balance at 1 April		65	49
Add: Grant-in-aid allocation	305		305
Less: acquisitions for Primary Collection	<u>(353)</u>		<u>(379)</u>
Transfers		(48)	<u>90</u>
Balance as at 31 March		<u>17</u>	<u>65</u>

Collections designated fund

Balance as at 1 April		0	0
Purchases for the Primary and Photographs Collections during the year		418	390
Transfer to Capitalised Acquisitions Fund		(418)	<u>(390)</u>
Balance as at 31 March		<u>0</u>	<u>0</u>

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

Capital projects reserve fund

Balance as at 1 April		8,081	7,635
Income during the year designated by the Trustees		358	<u>162</u>
		8,439	7,797
Less: Depreciation for year		(360)	(323)
Add: Indexation adjustments/revaluation		442	<u>607</u>
Balance as at 31 March		<u>8,521</u>	<u>8,081</u>

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

Investment and contingency fund

Balance as at 1 April		1,230	650
Transfers from: retained surpluses		172	461
NPG 2000 Fund		3	119
Expenditure during the year		(593)	<u>0</u>
Balance as at 31 March		<u>812</u>	<u>1,230</u>

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

Deferred projects fund

Balance as at 1 April		551	651
Transfers from retained surpluses		344	551
Expenditure during the year		(439)	<u>(651)</u>
Balance as at 31 March		<u>456</u>	<u>551</u>

This fund represents underspends generated in 2003-2004 which are to be employed in projects during 2004-2005.

13 Restricted funds

	2004	2003
	£000	£000
<i>Development project fund</i>		
Balance as at 1 April	20,952	21,285
Less: depreciation for year	(586)	(599)
Indexation adjustments/revaluation	(2,017)	(986)
Transfers from: sponsorships and donations	0	998
Retained surpluses	0	254
Balance as at 31 March	<u>18,349</u>	<u>20,952</u>

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

<i>Capital reserve fund (non-donated assets)</i>		
Balance as at 1 April	11,033	10,178
Less: depreciation for year	(85)	(121)
Add: Indexation adjustments/revaluation	3,031	976
Balance as at 31 March	<u>13,979</u>	<u>11,033</u>

This fund represents the net book value of vested fixed assets funded from self-generated income.

<i>Capital reserve fund (donated assets)</i>		
Balance as at 1 April	8,093	8,265
Less: depreciation for year	(194)	(160)
Indexation adjustments/revaluation	(3,721)	(12)
Balance as at 31 March	<u>4,178</u>	<u>8,093</u>

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

<i>Capitalised acquisition fund</i>		
Balance as at 1 April	2,096	828
Funded acquisitions during the year	375	878
Transfers from/(to): collections designated fund	418	390
Sponsorships and donations	(29)	0
Helen Gardner fund	16	0
Balance as at 31 March	<u>2,876</u>	<u>2,096</u>

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

Sponsorship and donations

Balance as at 1 April	321	213
Income during the year	1,088	1,718
Expenditure during the year	(893)	(591)
Transfers from/(to): development projects fund	0	(998)
Capitalised acquisitions fund	29	0
Retained surpluses	117	(21)
Balance as at 31 March	<u>662</u>	<u>321</u>

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

	2004 £000	2003 £000
<i>NPG2000 fund</i>		
Balance as at 1 April	0	342
Income during the year	3	35
<i>Transfers to:</i> development projects fund	0	(254)
Investment and contingency fund	0	(119)
Retained surpluses	<u>(3)</u>	<u>(4)</u>
Balance as at 31 March	<u>0</u>	<u>0</u>

This fund represents public donations to the Ondaatje Wing.

<i>Dame Helen Gardner bequest</i>		
Balance as at 1 April	17	13
Income during the year	5	4
Transfers to capitalised acquisitions fund	<u>(16)</u>	<u>0</u>
Balance as at 31 March	<u>6</u>	<u>17</u>

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

14 Analysis of group net assets between funds

Fund balances at 31 March 2004 are represented by

	Unrestricted £000	Restricted £000	Total £000
Tangible fixed assets	8,518	39,382	47,900
Investments	33	0	33
Current assets	3,065	669	3,734
Current liabilities	<u>(935)</u>	<u>0</u>	<u>(935)</u>
Total net assets	<u>10,682</u>	<u>40,050</u>	<u>50,732</u>

Unrealised gains included above

On tangible fixed assets	0	0	0
On investment assets	<u>16</u>	<u>0</u>	<u>16</u>
Total unrealised gains at 31 March 2004	<u>16</u>	<u>0</u>	<u>16</u>

15 Financial commitments

As at 31 March 2004 the Gallery had annual commitments under non-cancellable operating leases as follows

Operating leases which expire

	2004		2003	
	Land and buildings £000	Furniture and equipment £000	Land and buildings £000	Furniture and equipment £000
Two to five years	45	30	42	30

The figure for land and buildings represents the lease on the Merton store which expires in 2009; 2003-2004 included a two-month rent free period.

16 Capital commitment

As at 31 March 2004 the National Portrait Gallery had £19,188 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*

	2004	2003
	£000	£000
Net (outgoing)/incoming resources/surplus before revaluations	(319)	1,748
Less: Investment income	(75)	(114)
Donated acquisitions	(87)	(289)
Depreciation	1,225	1,204
Decrease in debtors	11	419
(Decrease)/increase in creditors	271	(619)
(Increase)in stocks	(14)	(42)
Net cash flow from operating activities	<u>1,012</u>	<u>2,307</u>

*b Analysis of cash flows***Capital expenditure and financial investment**

Payments to acquire tangible fixed assets	<u>(1,173)</u>	<u>(3,409)</u>
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Management of liquid resources

Decrease/(increase) in short term deposits (current investments)	<u>116</u>	<u>927</u>
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Return on investments and servicing of finance

Interest received	73	112
Investment dividends	2	2
	<u>75</u>	<u>114</u>

c Reconciliation of net cash flow to movement in net funds

Increase/(decrease) in cash in period	30	(61)
Cash flow from change in liquid resources	<u>(116)</u>	<u>(927)</u>
Movement in net funds in the period	(86)	(988)
Net funds at 1 April	<u>2,235</u>	<u>3,223</u>
Net fund at 31 March	<u>2,149</u>	<u>2,235</u>

d Analysis of net funds

	1 April 2003	Cash flow	31 March 2004
	£000	£000	£000
Cash at bank and in hand	2,119	30	2,149
Liquid resources	116	(116)	0
Net funds	<u>2,235</u>	<u>(86)</u>	<u>2,149</u>

18 Trading activities - retail publications and picture library

	2004	2003
	£000	£000
Trading turnover for the year	2,081	2,475
Less: Cost of goods sold	(798)	(905)
Gross profit	1,283	1,570
Less: Staff costs	(723)	(732)
Direct overheads	(177)	(234)
Allocation of Director's salary, maintenance & office expenses	(26)	(17)
	357	587
Reconciliation to Note 5		
Direct salaries	723	732
Allocation of Director's salary, maintenance & office expenses	26	17
Total salaries as Note 5	749	749
Cost of goods sold	798	905
Direct overheads	177	234
Total costs as Note 5	975	1,139
Staff costs include salaries and employer's costs.		
Net assets held for trading at 31 March 2004 comprise		
Current assets		
Stock	720	706
Debtors	110	157
	830	863
Current liabilities		
Creditors	0	(58)
Accruals	(66)	(37)
	(66)	(95)
Net assets	764	768

19 Contingent liabilities

There were no material contingent liabilities at 31 March 2004.

20 Post balance sheet events

There were no post balance sheet events.

21 Related party transaction

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

	Amount purchased	Amount sold	Donations/ grants awarded
	£000	£000	£000
Related Party			
Arts Council	0	6	0
British Library	1	4	0
British Museum	22	0	0
Imperial War Museum	2	0	0
National Gallery	107	12	0
Heritage Lottery Fund	0	0	127
National Museums & Galleries on Merseyside	47	0	0
Tate Gallery	9	2	0
Victoria & Albert Museum	2	0	0
English Heritage	0	3	0
National Maritime Museum	2	0	0
National Museum of Science & Industry	5	0	0
Wallace Collection	1	0	0

Other Related Party Transactions

During 2003-2004 three Trustees, Sir Christopher Ondaatje, Ms Flora Fraser and Sir David Scholey donated £25,000, £25,000 and £2,500 respectively towards the appeal for the portrait of *Omai*, *Sir Joseph Banks* and *Dr Daniel Solander*.

Trustee Mr Tom Phillips was paid £8,250 towards the portrait of *Charles Saumarez Smith* commissioned last year for the total fee of £11,000.

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