

MUSEUMS AND GALLERIES ACT 1992

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National Portrait Gallery Annual Report and Accounts 2004-2005

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Trustees' and Accounting Officer's Annual Report

Introduction

The Trustees of the National Portrait Gallery have pleasure in submitting their Annual Report and Accounts for the year ended 31st March 2005. The Annual Report sets out:

- our aims and objectives, and our strategy in achieving them; and
- highlights our performance during the past year, including performance against the agreed targets set by Department for Culture, Media and Sport

A financial review of the Gallery's performance is included in the Foreword to the Accounts on page 16.

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 This act superseded the Treasury Minute of 2 December 1856 by which the Gallery was originally established.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

History and Background

The National Portrait Gallery was founded in 1856 to collect and display portraits of eminent British men and women. The first acquisition to be registered was the portrait of Shakespeare 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 Learning and Access department runs extensive education and outreach programmes for schools, colleges, families and visitors in general, promoting access to and understanding of the collections to a broad range of audiences.

The Primary Collection of paintings, sculpture, miniatures, drawings, prints and photographs contains some 10,550 portraits of the most famous people in British history. Of these more than 4,100 are paintings, sculptures and miniatures, approaching 60% of which are regularly displayed at the National Portrait Gallery or elsewhere. In addition, there are some 6,400 works on paper, shown on a rotating basis of about 300 items a year. Normally items not on display can readily be made available for viewing via the Collections Manager. The Collection is also made widely available via the Woodward Portrait Explorer in the IT Gallery, by CD-Rom, on the internet and in Gallery and other publications.

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

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

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

Organisation and Administration

The Gallery is a Non-Departmental Public Body supported by the Department for Culture, Media and Sport. A Board of sixteen trustees, appointed by the Prime Minister, meets quarterly. There is a committee of the Board which covers audit and compliance. The Gallery also has a development board to support fundraising initiatives. A list of Trustees during 2004/05 and up to the date on which the accounts were signed is at page 16. 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.

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

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

The Gallery does not charge for general access to permanent Collection displays. Temporary exhibitions are partially funded by sponsorship, by admission charges for two exhibitions a year in the Wolfson Gallery (and from 2005/06 one exhibition a year in the Porter Gallery), and by retail sales associated with the exhibitions. Earning revenue in addition to the government's Grant-in-Aid allows a wider public programme to be offered.

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

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

The Gallery's three-year Funding Agreement for 2003-2006 with the Department for Culture, Media and Sport 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 these targets throughout the Foreword and Annual Report with the Gallery's achievement against the 2004/05 targets (with comparators for previous years) detailed in the Annex.

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

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

In 2006, the 150th anniversary of the Gallery's foundation provides an opportunity to celebrate the past and look to the future, to enhance the Gallery's reputation and fundraise. The anniversary will also be an opportunity to widen interest in the Gallery's work through media partnerships. To support the development of the Collections the Trustees have formed a new fund to generate substantial additional funding for acquisitions, conservation and research. The Gallery is now seeking major donations to this Portrait Acquisition Fund and will give special acknowledgement to this support in 2006 as part of the anniversary celebrations. A fundraising Gala will be held in February 2006 and will be followed by a number of special exhibitions and displays which, together with talks, concerts and public activities, will form the 150th Anniversary programme.

Review of Performance and Planned Future Developments

Extending and broadening audiences

Visitor numbers for 2004/05 were 1.47 million, representing 3% growth on the 1.43 million visitors in 2003/04 and almost equalling the previous record of 1.48 million in 2001/02 (during which the Gallery's most popular exhibition to date, *Mario Testino: Portraits*, had opened). This also exceeded the 2004/05 target of 1.325 million in the Funding Agreement with the Department for Culture, Media and Sport. Including the 225,000 visits made to national partners (231,000 in 2003/04), total visitor numbers were 1.70 million, compared to 1.66 million in 2003/04.

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 142,000 visitors in social categories C2, D or E who visited the Gallery during the year, a 25% increase from the 114,000 visits made in 2003/04 and well over double the 60,000 anticipated in the Funding Agreement. At 93,000, the number of children visiting the Gallery was less than the 101,000 target under the Funding Agreement (due to a change in the methodology for counting visits from that employed during the previous Funding Agreement) but represented an impressive 31% increase from the 71,000 visits of 2003/04.

The ratio of repeat to first-time visitors was 74:26 compared to 76:24 in 2003/04. Contributing to the repeat visits are the Gallery's valued Members, whose numbers were boosted in 2004/05 by special promotions and improved retention rates, increasing by 14% to 2,017 from 1,770 in 2003/04; the Gallery aims to increase the total Members to 5,000 by 2006/07, in particular through recruiting in connection with the 150th anniversary celebrations.

In April 2004 the Gallery's commitment to increasing access was rewarded by winning the Gold Award in the Tourism For All (Accessible Tourism Product) category of the Excellence in England Tourism Awards 2004.

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 4.5 million user sessions during 2004/05, an 80% increase on the previous year's figure of 2.5 million and well above the Funding Agreement target of 2,175,000. By the end of 2004 the Gallery had the second most visited art website in the country (source: Hitswise) with 68% of all visits being linked to searching the collection.

Specific projects which have extended and broadened audiences in 2004/05 are detailed in Increasing the Understanding of and Engagement with the Collection below, for example under Learning and Access. In 2005/06 the Gallery will develop further detailed audience evaluation in a partnership project with a Higher Education institute. Ahead of re-tendering the market research contract the Gallery will draw up a three-year programme of research based on information needs identified throughout the Gallery. A specific marketing campaign to reach overseas visitors is also being planned.

Developing the Collection

Acquisitions and Commissions

The Gallery continued its policy of acquiring and commissioning portraits of people who have made a significant contribution to the history and culture of our nation. Works of art are increasingly expensive and the generosity of individual donors, 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.

Three important but very different portraits were acquired with the help of external funding: a striking Tudor panel of one of the most powerful Elizabethan noblemen, Thomas Howard, 4th Duke of Norfolk, painted by an Anglo-Netherlandish artist in 1565, Vanessa Bell's remarkable pointilliste portrait of Roger Fry painted in 1912, and a hieratic full-length image of the art critic, David Sylvester, a 1962 work by his American friend, Larry Rivers.

The *Duke of Norfolk* was ultimately made possible by substantial National Heritage Memorial Fund support, while the *Roger Fry* depended on the significant generosity of Sir Christopher Ondaatje. A number of supporters with a close commitment or relationship to David Sylvester made this acquisition possible: the estates of Francis Bacon and John Edwards, the Henry Moore Foundation and the Sylvester family itself.

Special funds which enable the Gallery to improve a particular part of the collection are invaluable so that we were especially pleased to acquire an unusual caricature drawing of the photographer, Ida Kar, by S. Stepanian, as the first acquisition from the Elizabeth Weisz fund for caricature drawings.

The Gallery continued to benefit from generous bequests and gifts from artists and sitters or their families: the extraordinary profile portrait of Lytton Strachey by Dora Carrington, 1916, was bequeathed by the centenarian Frances Partridge, while Sir Hubert von Herkomer's 1908 portrait of the banker and entomologist, Nathaniel Rothschild, was given by his distinguished daughter, the late Dame Miriam Rothschild. We were pleased to receive several fine works on paper: a vintage Cecil Beaton of actress Elizabeth Bergner from Gordon Hendry, Arthur Lett-Haines's sketch of the painter Frances Hodgkins and a John Nash self-portrait as part of a larger archive of Nash images from Dr Ronald Blythe, John Ward's watercolour of architectural historian John Cornforth, from his executors, and Peter Wardle's chalks of jurist Claire Palley and writer Athol Fugard, from the artist.

Of fine works on paper which were purchased by the Gallery, the earliest, and a rare acquisition for the Gallery, was the late 16th century engraving of Thomas Cavendish the circumnavigator. A significant group of drawings by Sir William Rothenstein, together with one of his son, Sir John Rothenstein, by Stanley Spencer, was allocated to the Gallery by the Government having been accepted in lieu of Inheritance Tax from the estate of a member of the family. Much closer to the present day are two finely contrasting drawings of philanthropist Drue Heinz by David Hockney.

Photographs acquired by purchase included a daguerreotype of the botanist, Sir Joseph Hooker by William Kilburn, an important group of theatrical photographs relating to Harley Granville-Barker and a number of vintage photographs: D.H. Lawrence, taken in Mexico by Edward Weston in 1924, Vita Sackville-West by E.O. Hoppé, and theatre designer Jocelyn Herbert by Roger Mayne. Also acquired were two collections of the work of individual photographers: a group of images by Lee Miller, mainly belonging to the 1930s and 1940s, and a collection of portraits by Jorge Lewinski, taken in the 1960s and 1970s.

Several fine 20th-century paintings were added to the collection, including two self-portraits, a tempera head by Edward Wadsworth, 1937, and an allegorical image by Michael Ayrton, 1958. Hans Schwarz's intensely coloured portrait of peace campaigner, Bruce Kent, was purchased at the artist's posthumous sale. Contemporary acquisitions included Tai-Shan Schierenberg's *Seamus Heaney*, David Copley's *Ken Dodd*, and two commissions, John Lessor's ambitious and moving group portrait of the Six British Paralympic Athletes and Victoria Russell's portrait of the philosopher, Baroness Onora O'Neill.

Commissioning portraits is a vital process for the Gallery. As prices have increased, the Gallery has become increasingly dependent on corporate and charitable support. Catharine Goodman's intense head of Dame Cicely Saunders, founder of the modern hospice movement, was funded with support from BP in the long tradition of giving a commission to the winner of the annual BP Portrait Prize. Justin Mortimer's theatrical image of Three Royal Court Directors, was the second Jerwood Charity commission for a portrait of up-and-coming achievers in the arts.

The video portrait *David*, Sam Taylor-Wood's film of the footballer David Beckham, generated great public interest; both this and Alessandro Raho's arresting full-length of actress Dame Judi Dench were made possible by JPMorgan's imaginative support for the Fund for New Commissions. Lord Chief Justice Lord Woolf and Dame Elizabeth Butler-Sloss, from a series of legal photographs by Christian Courrèges, were among several photographic portraits acquired with support from Deloitte through the Deloitte Acquisition Fund. *A Blueprint for Life: Designers Photographed* by Steve Speller, a series of newly commissioned portraits, was supported by Casio in association with *Blueprint* magazine.

As noted under Objectives and Policies of the Gallery above, in 2005/06 the Gallery will launch its fundraising campaign for The Portrait Acquisition Fund. Funding from the JPMorgan Fund for New Commissions, Deloitte Contemporary Photographic Commissions, Jerwood Charity for achievers in the arts and the Weisz fund for caricatures will assist in both the commission and acquisition of works for the Collection.

Conservation projects included the design of a vitrine system at Montacute House to buffer two fragile panel portraits from climatic fluctuations and pollution, achieved with minimal interference to the works and their frames. The Frame Studio welcomed the first student on an annual study programme over three years, generously sponsored by The Pilgrim Trust, which will focus on the Gallery's outstanding collection of English frames, and hosted four students on its education programme. The enthusiastic team of volunteers from NADFAS cleaned, monitored and documented the collection of frames on display.

Increasing the Understanding of and Engagement with the Collection

The Galleries

The ongoing programme of renewal of the Galleries has continued with the re-hang of the Balcony Gallery. This revitalised display, entitled *Britain 1960-1990: The Pendulum Years*, re-examines the Wilson and Thatcher years with a new selection of paintings and sculpture, including some recent acquisitions, such as the portraits of David Sylvester and Bruce Kent.

The display of Tudor miniatures was renewed, including early coins and medals on loan from the British Museum, while a new selection of pastels and miniatures, as light-sensitive objects, was introduced into the Weldon Galleries, a year after the successful renewal of the Regency displays. A remarkable newly discovered portrait of Mary Seacole, remembered for her heroic nursing work during the Crimean War, was welcomed on loan in the Victorian Galleries. Large print and other information was provided in the Stuart Galleries as part of a rolling programme to enhance the availability of information for all.

Exhibitions and displays

The Gallery maintained an active programme of exhibitions, demonstrating the strength of research and interpretation in mixed media and a variety of subject matter. The exhibitions travelled to a number of national and international venues. Relationships were established with new institutions as well as fortified with existing ones in familiar venues.

In the Wolfson Gallery, *Cecil Beaton: Portraits* (sponsored by Herbert Smith) closed in May 2004, having received 128,000 visitors, making it the second most popular ticketed exhibition in the Gallery's history. Now in its twenty-fourth year and fourteenth year of sponsorship, the *BP Portrait Award* had its most successful year yet with 182,000 visitors and a record of 955 entries from which 54 works were selected for the exhibition of summer 2004. *The Miracle* by Stephen Shankland, an arresting portrait of the artist's wife and son, was awarded first prize. The winner of the *BP Travel Award 2003*, Ulyana Gumeniuk, exhibited work produced from her visit to the Ukraine and Russia. *G. F. Watts: Portraits* was the major exhibition of the year, opening in winter 2004 to coincide with the centenary of the artist's death and linked to displays at Tate Britain, Leighton House and the Watts Gallery, Compton. The first exhibition to focus on his portraits and the largest exhibition of his works in over half a century, it attracted 24,000 visitors. In Spring 2005 the work of one of the most extraordinary photographers of the 20th century was shown in *Lee Miller: Portraits*. The exhibition (again sponsored by Herbert Smith, and recommended by Classic FM) showcased intimate portraits of 20th century artistic and literary figures such as Pablo Picasso and Jean Cocteau, with whom she was great friends, in addition to her memorable images of the war effort as Vogue war correspondent. The most popular charging exhibition which opened during 2004/05, *Lee Miller: Portraits* received 63,000 visitors.

In the Porter Gallery, the popular *We are the People: Postcards from the Collection of Tom Phillips* ended in June 2004, having attracted 140,000 visitors, and was followed by *Off the Beaten Track: Three Centuries of Women Travellers* (sponsored by the AirMiles Travel Company). This inspiring exhibition, drawing upon the wealth of the Gallery's Collection in all media, explored the adventures of a variety of independent women who journeyed to distant parts of the world from the 1660s to the 1960s, before the age of mass travel. The exhibition was viewed by 162,000 visitors, some of whom took part in an evaluative survey, using the Inspiring Learning for All framework recommended by the Museums, Libraries and Archives Council. The evaluation confirmed the high number of women and family visitors and the positive response to interactive elements. In its second year, the *Schweppes Photographic Portrait Prize* continued to demonstrate the current level of contemporary portrait photography, attracting nearly 8,000 lively and entertaining entries from 2,661 photographers, more than twice the amount of the previous year, from which 61 were selected for exhibition. The first prize was awarded to German photographer Jens Lucking for Tokyo, a striking portrait of three Japanese school-girls while Paul Plews' entry, *Untitled*, won the Deloitte Award for the best portrait taken by a photographer aged twenty-five or under. *Conquering England: Ireland in Victorian London* (with grants from the Department of Arts, Sport and Tourism, Ireland and the Ireland Fund of Great Britain) offered an exploration of the diversity of the Irish in London and their influence in the visual arts, literature, theatre, journalism and politics from the 1830s until the turn of the century.

A varied temporary display programme continued throughout the year in the Book Shop and Balcony galleries and other spaces within the Gallery, including *Frida Kahlo: Portraits of an Icon*, 50 photographs spanning the life of the Mexican artist by relatives, lovers and friends, a centenary display *Bill Brandt: Portraits* to complement the retrospective at the Victoria and Albert Museum and *Norman Parkinson: Portraits in Fashion*, which displayed twenty of the photographer's most compelling fashion portraits of such sitters as Ava Gardner and Jerry Hall. *Lucian Freud in the Studio: Photographs by David Dawson* offered a fascinating insight into a contemporary master at work, with support from Hazlitt Holland-Hibbert.

Highlights of the future exhibitions and displays programme will be SELF PORTRAIT: *Renaissance to Contemporary* (with a number of important loans, including some never before seen in the UK, and the first exhibition since *Painting the Century* in 2000 to extend out from the Wolfson Gallery), and in the Gallery's 150th anniversary year, 2006, *Searching for Shakespeare, David Hockney: Portraits*, and an exhibition to celebrate the commissioning process, entitled *Icons or Idols*.

National Programme

The Gallery has continued to develop and extend its national programmes. The Regional Partnerships have been strengthened this year with Bodelyyddan Castle Trust at Bodelyyddan in north Wales entering into a complementary partnership with the National Museum & Gallery in Wales, and Montacute House and Beningbrough Hall receiving funding for the second year from the Department for Culture, Media and Sport/Department for Education and Skills Strategic Commissioning Fund. This year has also seen the development of a partnership with the North East Hub, a grouping of museums, formed as part of the Renaissance in the Regions programme to build capacity in UK museums. The partnership focuses on audience development and developing learning and resources around portraiture. Staff development and skills exchange and sharing knowledge about portrait collections will also be a feature of the relationship.

Exhibition collaborations have included *Norman Parkinson, Portraits in Fashion*, February to August 2005 at the Bowes Museum where the Keeper of Textiles at the Bowes Museum worked closely with the Gallery's Photography Curator to select works from the 1950s and 1960s to be displayed alongside costume and accessories from the same period. The Gallery also collaborated with Sunderland Museum and Winter Gardens, Media 19 and Channel 4 on the *Self Portrait UK 14-19* project. The Director was a judge for the exhibition which toured to several UK venues and young people selected a group of self-portraits from the National Portrait Gallery collection to accompany the Sunderland showing of the exhibition. Strategic Commissioning funding from the Department of Culture, Media and Sport and Department for Education and Skills supported an associated learning programme for both these exhibition projects, as part of the *People, Places and Portraits* programme.

Through the Strategic Commissioning Fund, the Gallery and Sheffield Galleries and Museums Trust were also supported in undertaking a learning based project around caricature to feed into the exhibition *Heroes and Villains: The National Portrait Gallery Collection through the Eyes of Gerald Scarfe*, on show at the Millennium Galleries, Sheffield, between May and August 2005. Strategic Commissioning funding in 2005/06 will sustain a third year of *People, Places and Portraits*; the Gallery will work with Sunderland Museum & Winter Gardens on the 2005 BP Portrait Award and an exhibition project with Manchester Art Gallery, as well as with Sheffield Galleries and Museums Trust on *Heroes and Villains*. Montacute House and Beningbrough Hall will also continue to be part of this project.

In 2004/05 the partnership with Deloitte has spread beyond London, with the company lending its support to the *Cecil Beaton Portraits* exhibition at the City Art Centre, Edinburgh. The Deloitte Edinburgh office held two successful events for staff and clients to mark the opening of the exhibition, one with the author Hugo Vickers as guest speaker.

As part of the partnership with the North East Hub, the Gallery is collaborating with the South Shields Museum and Art Gallery on *Heroes of Trafalgar: Collingwood and Nelson*, running from April to June 2005. This exhibition, including works from the Gallery's Archive Collection and the large Guy Head painting of Nelson, shown alongside material drawn from Tyne and Wear Museums, is part of the Sea Britain events in 2005. The forthcoming year also sees the loan of the video portrait 'David' by Sam Taylor Wood to Manchester while Deloitte sponsorship is supporting *Celebrity: Terry O'Neill* on tour to the Walker Art Gallery, Liverpool.

The Gallery has continued to tour its exhibitions throughout the U.K., with 10 shows touring to 19 national and international venues, and is in the process of reviewing its long-term loans programme with a view to increasing loans around the country. The Gallery remains a significant lender to museums and galleries both nationally and abroad, with works lent to 97 venues during the year; this included loans to 90 venues in England (achieving the target of 90 in the Funding Agreement with the Department for Culture, Media and Sport), 6 to other UK venues and 1 to venues overseas.

The Gallery was delighted to learn in March 2005 that the Heritage Lottery Fund has awarded over £400,000 towards *Making Faces*, a project which will refurbish, re-display and provide new layered interpretation for the portraits at Beningbrough Hall. This innovative display, coupled with a new lift and improvements to visitor services, is due to open to the public in Spring 2006. At the same time, to celebrate the Beningbrough's re-launch, the National Trust have announced that they will begin opening the house every weekend throughout the winter, in order to enable more visitors to benefit from the new displays.

Learning and Access

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, 78,500 learners participated in on-site and outreach classes, lectures and other activities during 2004/05 (an increase of over 20% from the 65,000 learners in 2003/04). Against the 27,000 target in the Funding Agreement with the Department for Culture, Media and Sport, the total number of children in organised educational programmes during 2004/05 was 42,500 (30% more than 2003/04).

More than 18,000 pupils and students took part in organised activities during 2004/05, with a further 24,600 visiting the Gallery on their own initiative (an overall increase of 30% from 2003/04). These groups use the permanent Collection and temporary exhibitions to study history and art, and take part in practical art and photography workshops. The new schools and Special Educational Needs (SEN) programme booklets have helped develop both mainstream school and SEN visits, adding to an increase in visits for both groups. There has also been a notable increase in the number of secondary schools using the Gallery to assist their artwork. Videoconferencing sessions to SEN and mainstream schools across the UK (funded by the Dulverton Trust) have greatly increased the Gallery's teaching capacity, as commented upon during a visit to the Gallery by the Rt. Hon. Charles Clarke MP, then Secretary of State for Education. Across the year, responses from teachers and group leaders attest to a high level of satisfaction with the Gallery and reveal the extent to which groups use their visits to support curricular studies.

Work beyond the Gallery has become an increasing part of the Gallery's remit. Outreach projects have included partnerships with Barnado's to develop a pilot arts and photography programme for young people aged thirteen to eighteen. Outreach to SEN and hospital schools has increased by 20% since 2003/04 while visual literacy workshops and Gallery-based sessions have increased by about 50%. Pilot programmes for adults with mental health problems have resulted in an academic year's programme being developed. A ten-month pilot arts and photography programme with the charity CONNECT to identify ways in which people with aphasia can be encouraged to visit and participate in the Gallery's activities has resulted in a sustained partnership with the charity; findings from the project will be disseminated to healthcare, voluntary and social sectors across the country. With the support of a three-year grant from the Vodafone UK Foundation the Gallery will continue to improve physical and intellectual access for disabled and disadvantaged groups and to reach new audiences.

Reaching Out, Drawing In, is a new three-year community education initiative funded by the Heritage Lottery Fund, which focuses on a series of six projects and exhibitions in the Studio Gallery, collaborating with community groups and partner organisations. The project is enabling the Gallery to undertake a sustained programme of new audience development and to give wider access to its collections through innovative and engaging interpretation. The first exhibition, *Inner Picture*, developed with Orleans House Gallery in Twickenham was on show at the Gallery from October 2004 to January 2005. Young people from south-west London, who have been excluded from mainstream education, worked alongside artists to create their own artwork, interpreting and responding to portraits chosen from the Collection. The work was also displayed at Orleans House Gallery. *Family Faces*, from February to September 2005 will involve working families from seven schools in Haringey, working alongside ceramicist Matt Sherratt to create sculptures of their families, drawing inspiration from the Gallery's own collection of family portraits.

An increasing emphasis has been the development of provision for family audiences. A series of regular activities was developed for half term, weekend and holiday periods, including photography sessions for the *We Are the People* exhibition, art activities to accompany the *Off the Beaten Track and Frida Kahlo: Portraits of an Icon*, and regular weekend Gallery-based tours, as well as marking Chinese New Year in February. The National Portrait Gallery and National Gallery were participants in the BBC Rolf on Art/Art on the Square bonanza in September, attracting over 15,000 participants to Trafalgar Square and to the two Galleries. The Big Draw weekend in October was also well attended, as people were encouraged to try their hand at drawing in the galleries. Funding from the Paul Hamlyn and Rayne Foundations has enabled the Gallery to work with new audiences and to attract people who have not visited the Gallery before; this work will be further developed in 2005/06 and beyond.

The Gallery's talks and events programme continued to attract large audiences. A new set of talks introduces aspects of the collection to Gallery visitors; in 'Staff Choice', members of the front of house staff present brief talks on portraits which interest them. Thursday evening lectures have included a series of debates, *Controversial Theses*, in collaboration with the Times Higher Education Supplement, and the completion of the sold-out *Interrupted Lives* series. A new partnership has been established with the Prince's Drawing School, offering drawing master-classes, which have proved very popular, for postgraduate level students and artists at the Gallery, led by artists with work in the Gallery's Collection. A particularly moving event was a study day which featured survivors of the Lodz Ghetto being brought together to share their photographs and memories of their horrific experiences. The past year also saw a one-day conference on GF Watts with Tate Britain (supported by the Paul Mellon Centre for Studies in British Art) and a joint conference with the Wellcome Foundation on Facing Death. A highlight of 2005/06 will be an exciting residency, funded by the Gulbenkian Foundation, of two photographers from the Cameroon, linked to the Africa 2005 programme.

Friday Evening Music

The popularity of these events continues to grow, and both the Musicians Benevolent Fund and the PRS Foundation maintained their support of the programme. The Concordia Foundation presented a series of six performances at the Gallery featuring exceptional young musicians and singers in a wide variety of works from around the globe. The series was generously supported by Dasha Shenkman. Other notable events included the London Jing Kun Opera Association who performed a Peking Opera Spectacular and Landing Mane and Seckou Keita with their African drumming. On both occasions the Main Hall was full to overflowing.

Options for extending late opening will be considered during 2005/06.

Digital Programme and Information

Cataloguing and digitising the Collection have continued apace during 2004/05 with the help of a generous donation from Sir Harry and Lady Djanogly and support from Deloitte for a contemporary photographs cataloguer. Over 10,000 additional portraits were added to the Gallery's Portrait Explorer in 2004/05, bringing its total contents to over 44,000 portraits, which also provide 44,000 illustrations for 62,000 portraits catalogued on the website; there is now information on more than 23,000 different sitters and artists on the Portrait Explorer and on more than 28,000 on the website.

Over 5,500 photographic images were digitised in 2004/05, including the Contemporary Photographs Collection (over 3,000 works by over 500 photographers taken between 1970 and the present day) and the John Culme Collection of mainly theatrical negatives; work has now begun on the recently acquired Ottoline Morrell collection. The Gallery aims to make 120,000 items, half the Photography Collection, searchable on the website within the next five years, subject to funding. In total, over 3,500 prints and drawings (including a group of silhouettes for display, which were also featured on the BBC's *Blue Peter*, 865 lithographs by the Victorian Richard James Lane and around 1,800 fine impressions of portrait prints contained in the extra-illustrated set of Henry B Wheatley's *London Past and Present*) were catalogued and almost 100 digitised. April 2005 saw the addition of around 900 digitised images of Henry B Wheatley's prints. As a result, almost 24% of the Archive Reference Collection and about 13% of the Photography Reference Collection can now be searched on-line via the Portrait Explorer and website.

Deloitte sponsored video interviews with eight contemporary photographers, including James Hunkin, Adam Broomberg and Oliver Chanarin, in relation to two Gallery displays on their work with scientists and figures from the telecommunications industry. Access to the Portrait Explorer for visitors with hearing impairment was enhanced through a further donation from the Woodward Charitable Trust, which made possible the inclusion of transcripts in video interviews with artists and sitters.

Among other developments introduced for the Gallery's virtual visitors were a sequence of photographic images which allow website users to pan round a number of galleries, a service to enable registered members of the press to download high-resolution images in relation to exhibitions and displays and new e-learning features on the practice of portraiture and perspective. Over 10,000 new digital images were also added to the Portrait Printer digital print service in 2004/05, allowing customers to choose from 37,000 different portraits from the shop, the IT Gallery, or their homes through the search mechanism on the website or Portrait Explorer on CD-ROM. Subject to funding, in 2006 to 2008 the Gallery plans to upgrade its IT Gallery to achieve increased usage through improved content and services and scope new features, content and curriculum-based resources for the Portrait Explorer and website.

Following a re-tender during 2004/05, in April 2005 the Gallery changed the service providers of its audio guide from Antenna Audio to Acoustiguide and brought the staffing of the audio guide in-house under the front of house team. Plans for the future include adding more commentaries to the programme, particularly more recent acquisitions, as well as a special section for younger visitors.

While continuing to make improvements to the delivery of services to Gallery staff and members of the public, the Heinz Archive & Library received 1,400 researchers in its public study room and responded to 1,750 telephone, letter and e-mail enquiries concerning British portraiture.

The survey of Gallery records was completed and recommendations were made for improving the management of paper and electronic records during the coming year. A framework was agreed for the gradual and incremental introduction of electronic records management. This focused initially on improving management of the Gallery's electronic records within existing systems, and throughout 2004/05 much progress was made in developing an 'All Staff' folder on the Gallery's network, which has now become a useful structured on-line reference tool and convenient means of sharing information, for all Gallery staff. In 2005/06, this work will be extended both to departmental workgroups, and to examining and improving the Gallery's use and management of e-mail.

As part of a long-standing commitment to openness, which is reflected in its public programmes, enquiry services and the provision of access to its records in the public study room of the Heinz Archive & Library, the Gallery welcomed the introduction of the Freedom of Information Act. In preparation for full implementation in January 2005, a public leaflet and web page was produced and the Gallery's publication scheme was updated.

In 2005/06 the Gallery will assess the business case for the automation of the library information systems, including stock control and management of periodicals; procurement and implementation would be during 2006/07.

Research and Publications

The year saw the culmination of several key research projects at the Gallery. Funded by the Paul Mellon Centre for Studies in British Art, *Mid-Georgian Portraits, 1760-1790* by John Ingamells was published, completing the series of detailed collection catalogues for the period 1500 to 1860. The *Oxford Dictionary of National Biography* was published both as a print edition of sixty volumes and on-line; this remarkable scholarly resource contains over 10,000 portrait illustrations researched by the Gallery in a major project begun in autumn 1996. The three-year programme of Leverhulme Fellowships in the History of Portraiture was completed with the last of the three fellows, Victor Morgan from the University of East Anglia having developed further research on the relationship between reputation and portraits in the Tudor and Stuart periods. Throughout the year, Gallery staff lectured nationally and internationally and contributed papers to symposia and to a large number of publications.

The overall output of publications (11 new titles, including 1 co-publication, with 3 reprints) during 2004/05 was one of the highest numbers ever achieved by the Gallery.

Looking ahead, the Gallery will be able to undertake another three-year research programme, thanks to a generous grant from the J. Paul Getty Foundation, which will facilitate four projects led by the Gallery's 19th, 18th and 16th century curators. The Gallery has been successful in obtaining, with King's College, University of London, a post-doctoral scholarship, funded by the Arts and Humanities Research Council, which will focus on a group of women achievers in the late 18th century. The Gallery will also take forward work on a 'portrait portal', as a way of linking up knowledge of and research on portraiture around the country. In addition, to ensure the Gallery achieves an increasingly active research culture in future years, new initiatives will be introduced, including a peer review process to look at the Gallery's research activities.

Resources

Financial

While revenue Grant-in-Aid will remain at little more than the 2004/05 level until 2006/07, the increase of 10% between 2005/06 and 2007/08, which was announced as part of the Government's 2004 Spending Review, recognises the significant contribution the Gallery has made and the pressures it faces in building on these achievements; however, the increase only goes part way to alleviating these pressures and comes with the requirement, resulting from the Gershon Efficiency Review of the public sector, to demonstrate the Gallery's ongoing cost effectiveness. The Gallery's Efficiency Delivery Plan has been incorporated within the 2005 to 2008 Business Plan and includes targets for income growth (especially trading profitability and fundraising – annual supporters, such as Patrons and legacies are seen as key areas for growth), productivity through reduction in sickness levels and more automation of processes through information technology and cost savings from improved procurement and greater energy efficiency. In 2005/06 the Gallery will be negotiating the Funding Agreement with the Department for Culture, Media and Sport for 2005 to 2008 and pressing for further government investment in the submission for Spending Review 2006.

Staff

During 2004/05, the Gallery reaffirmed its commitment to staff development by appointing a Training and Development Manager; this enabled a comprehensive training needs analysis to be completed in order to develop an overall strategy for training with a three-year plan for implementation. In addition the training database was overhauled and evaluation methods reviewed. The highest priorities in the training needs survey (customer care and project management) were put in hand.

An equality action survey was completed and diversity training was provided to all staff; the Gallery aims to diversify the workforce further, with a target of a 3% increase in applicants and appointments from disabled, black and ethnic minority people by 2007/08. In 2005/06 a development programme for candidates from Afro-Caribbean and Asian backgrounds, under-represented in the specialist workforce, will be offered work experience through the Inspire programme, funded by the Arts Council, and the Global Graduates programme. Employment opportunities are now being published more widely e.g. through black and minority press. The Gallery has

established a curatorial internship programme, allowing post-graduate students to spend time at the Gallery enhancing their skills and in 2005/06 will extend a work experience programme with local schools piloted in 2004/05. In addition, the Gallery will review its work arrangements during 2005/06 to maximise flexible working conditions and ensure best practice and a survey of employee satisfaction will be introduced in 2006.

Premises

Having failed to obtain funding from the Department for Culture, Media and Sport/Wolfson Museums and Galleries Improvement Fund, the Gallery decided to invest in some improvements in access to its main entrance and signage from its Investment and Contingency Fund; however further improvements scheduled for 2005/06 remain subject to funding. Short-term solutions were found for pressures on Collections storage and a brief was drafted for the Gallery's longer-term storage requirements. Agreeing the best option and drawing up a funding plan for storage will be high priority actions for 2005/06. The refurbishment of the new offices in the East Wing and the rationalisation of the Orange Street offices were completed in 2004; as for storage, a long-term office plan is needed and will be drafted in 2006/07. The Gallery has also carried out a building condition survey in order to formulate a longer-term strategy and cyclical plan for renewal and refurbishment.

Systems and services

The Gallery's 'behind-the-scenes' systems infrastructure continues to be strengthened with a series of initiatives, which are making efficiency savings in how the Gallery delivers services to both staff and the public. A Gallery-wide move from Novell to Windows 2003 network and server software was completed as part of a longer-term plan to bring the Gallery's underlying IT network, software (including the MultiMimsy collections management database) and hardware infrastructure up-to-date; as a result, staff now have remote access to e-mail, back-ups are centralised and work is underway on new automated anti-virus software for central management of system security, including security fixes and patches, all of which will minimise system down-time. The workstation renewal programme should be complete by 2006/07.

Following the review of the Gallery's internal governance, focussing on the decision-making process and how those decisions are disseminated, the following actions were taken as part of a two-year timetable for implementation: the Planning Team, a sub-committee of the Management Team, was formed for the detailed consideration of planning, finance and risk management (which has considerably reduced the time the Management Team needs to spend on these issues); terms of reference have been written for the major decision-making teams and committees; and an evaluation working group was set up. In 2005/06 the Gallery will update its key policy documents and a Gallery-wide framework will be created for evaluation and performance measurement.

In 2004 the Gallery tendered its internal audit services and appointed AHL Limited, primarily due to their experience within the museums and galleries sector. AHL Limited took up appointment in December 2004. The Gallery reviewed its restaurant and catering services, through the work of an external consultant, and has renewed the franchise for Searcys on revised terms and an agreement for extended public services.

Trading

A refurbishment of the ground floor shop and bookshop took place in the summer of 2004. A new cash desk, display tables, wall fittings and décor helped to transform the ground floor, while downstairs was reconfigured to allow the café to extend into the bookshop space. Trading has benefited, especially on the ground floor, with 7% growth in sales per visitor across the 5 months following completion and an overall 2% increase in retail sales for the year; spend per visitor in the café increased by 4% compared to the equivalent period in 2003/04.

The other driving force behind an excellent trading performance was, as ever, the exhibition programme. The BP Award catalogue sold almost 10,000 copies during the year, a third more than for 2003. The two photography exhibitions, *Cecil Beaton* and *Lee Miller*, were commercially very successful, with Beaton generating the second highest profit ever after *Mario Testino: Portraits* (which will go out of print in 2005, having been published over four years ago). Other successes included *Off the Beaten Track*, which was accompanied by a wide range of merchandise as well as the very popular publication while the *We Are The People: Postcards from the Collection of Tom Phillips* publication was short-listed for the AXA/Art Newspaper Award. *Norman Parkinson: Portraits in Fashion*, a co-publication, achieved large amounts of press coverage and sold strongly, particularly in the book trade. The second new title not related to a current exhibition although inspired by the *Circling the Square* Studio Gallery display in 2003/04, was *Trafalgar Square*, which attracted positive coverage on television and helpful reviews in other media.

A number of new products were produced during the year, mainly to accompany temporary exhibitions. The mobile shop was deployed in the Porter Gallery for each of the exhibitions in that space and for a brief time in the Balcony Gallery following the opening of the *Frida Kahlo* display. Sales through e-commerce continue to grow, up 75% on 2003/04, and the recent initiative enabling customers to purchase prints on-line has proved particularly successful; as a result, the Gallery has embarked on a major project to update its Picture Library software in 2005/06, which should make a step change in the way in which the Gallery markets its images and conducts its business. The commercial area of the Gallery's website is also due for further investment in 2005/06, which would allow more customers from around the world to obtain the Gallery's books, prints and other merchandise more easily.

Most specialist picture libraries are experiencing tough trading conditions in the face of competition from a small number of major commercial players offering easy access and low prices and by the need for investment in digitisation and efficient on-line systems. In addition to the on-line print service, the Picture Library undertook a number of marketing initiatives to counter the otherwise gloomy market conditions, including a high-profile presence at the Picture Buyers Fair in London and the Frankfurt Book Fair. Picture Library turnover reduced by 1%, excluding income from the *Oxford Dictionary of National Biography*, a creditable performance in the face of prevailing trading difficulties.

Foreword to the Accounts

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 2005/06 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 continuing difficulties in the economic and international climate, 2004/05 has been another sound year in terms of meeting internal financial targets as well as the performance targets agreed with the Department for Culture, Media and Sport (with the exception of number of child visits, as explained under Extending and Broadening Audiences above). The success of the *Cecil Beaton: Portraits* and other charging exhibitions together with the Gallery's excellent trading and fundraising results have allowed the Gallery to designate further funds in the Investment and Contingency Fund to finance one-off expenditure, as described below in the Reserves Policy.

Statement of Financial Activities

Having received no increase in its revenue funding from the Department for Culture, Media and Sport since 2001/02, the Gallery welcomed the 10% increase in revenue Grant-in-Aid and £100,000 capital funding in 2004/05. Combined with the increase in visitor numbers, this meant that Grant-in-Aid per visitor to St Martin's Place increased slightly from £4.01 per visitor in 2003/04 to £4.16 in 2004/05. Including regional partners (whose numbers decreased between 2003/04 and 2004/05) but excluding website visitors, this figure becomes £3.61 per visitor (£3.45 in 2003/04). The Grant-in-Aid per visitor figure favoured by the Department for Culture, Media and Sport (but no longer a Funding Agreement target) includes website and regional partner visitors; the performance for 2004/05 was £0.98 compared to £1.35 in 2003/04. Consequently the Gallery continues to be highly effective in terms of Grant-in-Aid per visitor.

As Grant-in-Aid represents only 66% of total income (net of trading and fundraising costs and excluding income for building projects and donated acquisitions), self-generated income remains crucial to sustaining the breadth and quality of the Gallery's activities.

Trading income increased by 17%, due to successful retail activities and publications, as noted under Trading above, and the one-off fee to license the on-line version of the *Oxford Dictionary of National Biography*; net trading income increased from £0.4m to £0.7m. Other successes in commercial income generation included sponsorship (30% increase), with the first full year of funding receivable from the Deloitte partnership alongside the income received from the Gallery's other major corporate partners, BP and Schweppes, with whom the Gallery enjoys a longer-term relationship. Gallery hire income increased by 26% (although there was also a slight drop in support from corporate members, where income decreased by 7%).

The Gallery was grateful to receive two significant unrestricted bequests totalling £473,000 in 2004/05 from Mary Hyde, Viscountess Eccles, and Lord Sieff, a former Trustee; these have been designated for The Portrait Acquisition Fund, in accordance with the Reserves Policy below. Grants and restricted donations totalling £0.6 million funded a variety of projects, described in the Review of Performance above. Donations for acquisitions included £105,535 from the National Heritage Memorial Fund for the Thomas Howard portrait and three grants from The National Art Collection Fund for the portraits of Thomas Howard, David Sylvester and Roger Fry. The estimated value of donated objects was £124,000 (£87,000 in 2003/04). A total of £85,000 was received for Learning and Access projects, compared to £56,000 in 2003/04. Individual giving income from Patrons and Members increased by 12%. In all, self-generated income for current operations (net of trading and fundraising costs and excluding funding for acquisitions and other fixed assets) increased by 12%.

Overall resources expended increased by 2% compared to 2003/04. Staff costs increased by 7%, reflecting increased numbers of staff on fixed-term contracts working on funded projects; as a proportion of total resources expended, staff costs increased from 46% to 48%.

Balance Sheet

Unrestricted Funds

The brought forward Unrestricted Funds balance of £8.8 million, re-stated to deduct £2.1 million from the Capital Projects Reserve Fund (to allocate more accurately the capital reserves at 31 March 2004 to the related fixed assets, following the revaluation of land, buildings, plant and machinery at that date) and to include a £0.25 million release from Sponsorships and Donations within Restricted Funds (see Notes 12 and 13), was increased by £0.9 million during the year. The closing balance was £9.7 million of which £6.6 million represents the capital assets funded from self-generated income (which are therefore not available for spending) and £1.7 million has been designated for the Investment and Contingency Fund (see Reserves Policy below) and for projects deferred to 2005/06. The £0.5 million legacies received in 2004/05 have been designated for The Portrait Acquisition Fund, as noted under the Statement of Financial Activities. In order to reflect the fact that acquisitions for the collection are inalienable and therefore restricted, the £0.3 million value of internally funded acquisitions has also been designated and transferred to Restricted Funds. Retained surpluses have been maintained at the level of £0.9 million agreed by Trustees within the Reserves Policy below.

Restricted Funds

The brought forward Restricted Funds balance of £41.9 million (re-stated to add £2.1 million from Unrestricted Funds and to deduct the £0.25 million release to the Investment and Contingency Fund within Unrestricted Funds, as above) was increased by £3.4 million. The closing balance was £45.3 million of which £41.2 million represents the vested assets and the capital assets financed by the Development Appeal Fund and the Heritage Lottery Fund and £3.6 million represents donations for capitalised acquisitions (including the value of donated objects); neither of these amounts is therefore available for spending. The balance of £0.5 million represents funds donated and available for the restricted purposes of grant-funded projects to be completed and the acquisition of specified categories of portraits.

Fixed Assets

The principal fixed assets represent the depreciated value of the St Martin's Place and the Orange Street buildings which were re-valued at 31 March 2004. In accordance with a Treasury directive, the Gallery has adopted a policy of using National Statistical Office indices to adjust the depreciated values of all assets in the years when they are not re-valued. The net book value of St Martin's Place and Orange Street, including fit-out, at 31 March 2005 was £47.0 million.

Performance against targets

An analysis of performance against the core targets agreed with the Department for Culture, Media and Sport under the Funding Agreement is set out on page 18.

Payment of Creditors

The Gallery follows the Treasury's guidance on payment of invoices. However in 2004/05, due to long-term sickness, the Gallery paid approximately only 52% of its invoices within the target of 30 days, compared to 71% in 2003/04. Performance standards are now being used to ensure improvement and during the first two months of 2005/06 the percentage paid within target has increased to 83%.

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 £34,000 in Charinco and COIF common investment funds (see Note 7).

During 2005/06, when the creation of The Portrait Acquisition Fund is further advanced, Trustees will review the investment policy in order to reflect the changes required for a more significant investment portfolio; the overall objective will be to maximise total return in the long term while maintaining a prudent spread of risk.

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. Approximately two-thirds of annual net income (66% in 2003/04 and 2004/05) is received as recurrent Grant-in-Aid from the government. The balance is derived from self-generated income which is mostly volatile and vulnerable to economic downturn. The Gallery has as yet no endowment nor undesignated 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 revenue 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 £1.5m million balance as at 31 March 2005 has been allocated to specific projects for these purposes in 2005 to 2007. Of the £1.3 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 (apart from legacies designated for The Portrait Acquisition Fund as below) and with any annual surplus in excess of the balance maintained in Retained Surpluses.

During 2004/05 Trustees approved the creation of The Portrait Acquisition Fund, for acquisitions and development of the Collection. It was also agreed that, when the Gallery receives unrestricted legacies, Trustees would consider designating them for The Portrait Acquisition Fund (every legacy to the Gallery goes towards developing and caring for the Collection for future generations).

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

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

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

As capital charges are affected by the external professional revaluations and annual revaluation by indexation to fixed assets, there is a risk that the actual capital charges will exceed the original estimates (both the actual and projected indexation calculations use indices provided by the Treasury); any overspend on non-cash costs could reduce cash Grant-in-Aid in the following year. However, in recognition of this risk, the Department, in 2003/2004, secured a safeguard for the Museum and Gallery sector from the Treasury, against the impact of March 2004 five yearly professional revaluations of land and buildings. No decision, however, has yet been made as to whether this safeguard will be secured in respect of the next external revaluation in March 2009.

The Department has also agreed to cover from the Department's own funds until 2005/06 any increase in capital charges arising from the use of indices in the years between full professional revaluations on inalienable land and buildings, such as the main building of the Gallery. 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 2003/04, the Gallery has also needed to manage any fluctuations arising from variations in the value of assets on indexation, apart from those eligible for cover by the Department.

The Board of Trustees and Professional Advisers

Between 1 April 2004 and 14 July 2005, the date on which the accounts were signed, the Trustees were:

Ms Zeinab Badawi (*from October 2004*)

Professor Robert Boucher, CBE, FREng

Professor David Cannadine, FBA, FRSL (*Deputy Chair to July 2005, Chair from July 2005*)

The Marchioness of Douro (*from September 2004*)

Ms Amelia Fawcett, CBE # * (*Deputy Chair from July 2005*)

Ms Flora Fraser

Sir Max Hastings (*to September 2004*)

Professor Ludmilla Jordanova

Sir Christopher Ondaatje, CBE, OC #

Mr Tom Phillips, CBE, RA

Professor The Earl Russell, FBA (*to October 2004*)

Sir David Scholey, CBE (*Chair to July 2005*) * #

Ms Sara Selwood *

Ms Alexandra Shulman

Sir John Weston, KCMG * #

Baroness Willoughby de Eresby, DL (*to June 2004*)

ex officio

President of the Royal Academy of Arts – Professor Philip King, CBE, PPRA (*to December 2004*), Sir Nicholas Grimshaw CBE, PRA (*from December 2004*)

Lord President of the Council – The Rt Hon Baroness Amos

*Audit and Compliance Committee members. The Chair of the Audit and Compliance Committee is Sir John Weston, KCMG. Mr Stephen Souchon is co-opted on to the Audit and Compliance Committee to provide specialist accountancy knowledge (*for a period of two years from February 2005*).

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

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
49 Charing Cross
London SW1A 2DX

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

Under statute, the Comptroller & Auditor General is the auditor of the Gallery's consolidated accounts for the year 2004/05. The audit fee in respect of this work was £19,000 (£18,500 in 2003/04).

Internal Auditors: (to November 2004) The British Museum Internal Audit Unit
Great Russell Street
London WC1B 3DG

(from December 2004) AHL Limited
Premier House
112 Station Road
Edgware
Middlesex HA8 7BJ



Sandy Nairne, Accounting Officer
14 July 2005



Sir David Scholey, Chairman of Trustees
14 July 2005

Performance Against 2004/05 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	2000/01 Actual	2001/02 Actual	2002/03 Actual	2003/04 Actual	2004/05 Target	2004/05 Actual
Total number of visitors (000s)	1	1,219	1,479	1,319	1,426	1,325	1,469
Number of child visitors (000s)	2	62	52	66	71	101	93
Number of C2DE visitors (000s)	3				114	60	142
Number of children in organised educational programmes (000s)	4				33	27	43
Number of website visits (000s)	5	662	1,121	1,374	2,578	2,175	4,543
Number of venues in England to which objects from the Collection are loaned	3				90	90	90

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

Note 2: The figures for 2001/02 and 2002/03 have been re-stated to be consistent with a change in the methodology for counting visits from 2003/04

Note 3: Introduced in the 2003 to 2006 Funding Agreement

Note 4: Introduced in the 2003 to 2006 Funding Agreement and includes participants in both on-site and outreach programmes

Note 5: The figures from 2000/01 to 2002/03 have been re-stated to be consistent with the methodology from 2003/04 which reflects the number of unique users visiting the website.

STATEMENT OF TRUSTEES' AND DIRECTOR'S RESPONSIBILITIES

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

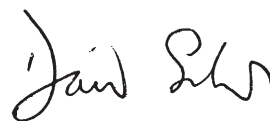
In preparing the National Portrait Gallery's accounts the Board of Trustees is required to:

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

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



Sandy Nairne, Accounting Officer
14 July 2005



Sir David Scholey, Chairman of Trustees
14 July 2005

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

STATEMENT ON INTERNAL CONTROL

1. **Scope of responsibility**

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

2. **The purpose of the system of internal control**

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Gallery's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

3. **Capacity to handle risk**

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

4. **The risk and control framework**

Risk management has been embedded within the organisation through the business planning and project management procedures developed during 2003/04, which ensure that risks to achieving business plan initiatives are identified from the point of proposal and are managed by having risk as a standing item on project team agendas. The top risk priorities for the Gallery during 2004/05 were the:

- potential terrorist threat in London and the need for a robust Business Continuity Plan;
- daytime robberies taking place at museums and galleries; 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. In 2005/06 the Gallery will seek to build on new evaluation activities introduced in 2004/05 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 a high-level version of the risk register and actions taken three times per year, enabling the Committee to focus on the most significant risks, in particular strategic and business environment risks. The Chair of the Audit and Compliance Committee provides quarterly updates to the Board of Trustees on the effectiveness of risk management.

5. **Review of effectiveness**

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

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

6. **Significant internal control problems**


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

7. **Conclusion**

The system of internal control has been in place at the Gallery for the year ended 31 March 2005 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.



Sandy Nairne, Accounting Officer
14 July 2005



Sir David Scholey, Chair of Trustees
14 July 2005

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 22 to 44 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 28 to 29.

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

As described on page 19 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 is 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 read the information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

I review whether the statement on pages 20 to 21 reflects the Gallery's compliance with Treasury's guidance on the Statement of 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 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 2005 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
Date 19 July 2005

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 2005

	2005	2004
	£000	£000
Total income from continuing operations	12,047	11,091
Less: Operating expenditure	11,622	11,410
Total surplus/(deficit) for the year	425	(319)
Add: Net capital income	322	74
Operating surplus/(deficit) on revenue income and expenditure	747	(245)

Net capital income represents income after depreciation charged in the year designated for capital projects. This includes £0.479m of restricted income (£0.375m in 2003/04) and £0.359m of unrestricted income (£0.776m in 2003/04), before total depreciation of £1.160m (£1.225m in 2003/04).

The notes on pages 28 to 44 form part of these accounts.

STATEMENT OF FINANCIAL ACTIVITIES FOR THE YEAR ENDED 31 MARCH 2005

	Notes	Unrestricted Funds £000	Restricted Funds £000	Total 2005 £000	Total 2004 £000
INCOMING RESOURCES					
Grant in Aid	2	6,008	100	6,108	5,712
Charitable Activities					
Exhibitions income		677	–	677	657
Learning & access income		17	–	17	32
Activities to generate funds					
Sponsorship income		–	671	671	515
Trading income	18	2,430	–	2,430	2,081
Gallery hire income		315	–	315	250
Corporate members		96	–	96	103
Individual giving		152	–	152	136
Catering franchise		160	–	160	160
Other fundraising income		18	–	18	57
Donations					
Grants & donations		31	244	275	534
Donated acquisitions	1(d)	–	124	124	87
Donations for acquisitions		–	132	132	258
Donations for building projects		–	1	1	0
Lottery income		–	80	80	127
Income from NHMF		–	105	105	0
Legacies		473	–	473	67
Investment income	3	134	–	134	75
Other income		76	3	79	240
Total incoming resources		<u>10,587</u>	<u>1,460</u>	<u>12,047</u>	<u>11,091</u>
RESOURCES EXPENDED					
Costs of generating funds					
Fundraising	5	395	103	498	437
Trading activities	5	2,064	50	2,114	1,882
		<u>2,459</u>	<u>153</u>	<u>2,612</u>	<u>2,319</u>
Net incoming resources available for charitable application		8,128	1,307	9,435	8,772
Charitable expenditure					
Activities in furtherance of the charity's objectives:					
Collections management	5	2,762	224	2,986	3,049
Research & documentation	5	813	172	985	875
Exhibitions & display	5	1,089	1,023	2,112	2,482
Learning & access	5	576	171	747	708
Publicity & information	5	891	–	891	906
Management & administration	5	1,249	40	1,289	1,071
Total charitable expenditure		<u>7,380</u>	<u>1,630</u>	<u>9,010</u>	<u>9,091</u>
Total Resources Expended		<u>9,839</u>	<u>1,783</u>	<u>11,622</u>	<u>11,410</u>
Notional costs:					
Cost of capital	1(l)	665	–	665	812
Net (outgoing) resources after notional costs		83	(323)	(240)	(1,131)
Reversal of notional costs		665	–	665	812
Net incoming/(outgoing) resources for the year before transfers	4	748	(323)	425	(319)
Transfers		(324)	324	–	–
Net incoming/(outgoing) resources for the year after transfers		424	1	425	(319)
Gains on investments	7	1	–	1	1
Indexation adjustments/revaluation		482	3,342	3,824	(2,265)
Net movement in funds		907	3,343	4,250	(2,583)
Fund balances brought forward at 1 April (restated)		8,821	41,911	50,732	53,315
Fund balances carried forward at 31 March		<u>9,728</u>	<u>45,254</u>	<u>54,982</u>	<u>50,732</u>

All operations of the Gallery continued throughout both periods and no operations were acquired or discontinued in either period. There are no recognised gains or losses other than those shown above. The notes on pages 28 to 44 form part of these accounts.

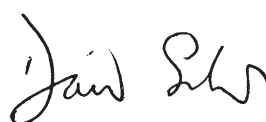
BALANCE SHEET AS AT 31 MARCH 2005

	Notes	£000	2005 £000	Restated 2004 £000
Fixed Assets				
Tangible assets	6		51,399	47,900
Investments	7		34	33
			51,433	47,933
Current Assets				
Stocks		803		720
Debtors and prepayments	9	622		865
Cash at bank and in hand	8	3,243		2,149
		4,668		3,734
Current Liabilities				
Creditors (amounts falling due within one year)	10	1,119		935
Net Current Assets				
			3,549	2,799
Net Assets				
			54,982	50,732
Represented by:				
Restricted Funds				
	11		45,254	41,911
Unrestricted Funds				
Designated funds	11		8,850	7,945
General funds	11		878	876
Total Funds				
			54,982	50,732

The notes on pages 28 to 44 form part of these accounts.



Sandy Nairne
Accounting Officer
14 July 2005



Sir David Scholey
Chairman of Trustees
14 July 2005

CASH FLOW STATEMENT AS AT 31 MARCH 2005

	Note	2005 £000	2004 £000
Net cash inflow from operating activities	17(a)	1,707	1,012
Capital expenditure and financial investment	17(b)	(747)	(1,173)
Management of liquid resources	17(b)	–	116
Return on investments and servicing of finance	17(b)	134	75
Increase in cash in the year		<u>1,094</u>	<u>30</u>

The notes on pages 28 to 44 form part of these accounts.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005

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 2004/05 Accounts Direction issued by the Department for Media, Culture and Sport. The accounts include the Grant-in-Aid account and two trust funds administered by the Gallery (the Dame Helen Gardner bequest and the Portrait Fund) and exclude the American Friends of the National Portrait Gallery (London) Foundation Inc, a US grant-giving organisation with 501 (c) (3) tax status, over which the Gallery has no direct control. The Gallery is recognised as an exempt charity under the provisions of the Charities Act 1993.

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.

1. ACCOUNTING POLICIES (CONTINUED)

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
Fit-out of buildings	25-30 years
Plant and machinery	20-25 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 include 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 not material finance leases. Costs in relation to operating leases are charged to the Statement of Financial Activities over the life of the lease.

j) Foreign currencies

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

k) Pension costs

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

l) Notional costs

In accordance with Treasury guidance, notional costs of capital (calculated at 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.

2. GRANT IN AID

	2005	2004
	£000	£000
Running costs	6,008	5,462
Capital costs	100	250
	6,108	5,712
Comprising: Request for resource 1	6,108	5,712

£6,108,000 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 £74,503 was received from DCMS/DfES for the funding of Strategic Commissioning projects, which has been included within Grants and donations.

3. INVESTMENT INCOME

	2005	2004
	£000	£000
Interest	132	73
Investment dividends	2	2
	134	75

4. NET INCOMING/(OUTGOING) RESOURCES BEFORE TRANSFERS

is stated after charging:	2005	2004
	£000	£000
a) Auditors' remuneration:	19	19
b) Operating lease rentals on land and buildings	56	42
c) Operating lease rental on fixtures & equipment	24	30

5. TOTAL RESOURCES EXPENDED

	Staff costs £000	Other direct costs £000	Depreciation support costs £000	Allocated Total £000	2005 Total £000	2004 Total £000
Fundraising	308	149	20	21	498	437
Trading activities	768	993	121	232	2,114	1,882
Collections management	2,055	366	253	312	2,986	3,049
Research & documentation	614	61	144	166	985	875
Exhibitions & display	508	581	469	554	2,112	2,482
Learning & access	451	157	68	71	747	708
Publicity & information	168	712	–	11	891	906
Management & administration	685	468	85	51	1,289	1,071
	5,557	3,487	1,160	1,418	11,622	11,410
Add: salaries capitalised	66					
Total salaries	5,623					

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

Capitalised salaries refer to the digitisation project.

5. TOTAL RESOURCES EXPENDED (CONTINUED)

a) Staff costs	2005	2004
	£000	£000
Staff costs during the year amounted to:		
Wages and salaries	4,731	4,400
National Insurance	341	315
Pension	551	524
	5,623	5,239

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 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 2004/05, employers' contributions of £541,000 were payable to the PCSPS (2003/04 £519,000) 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 increase with effect from 2005/06. 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 £8,800 (£4,900 in 2003/04) 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 £796 (£477 in 2003/04), 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 are as follows:

	2005	2004
£50,000–£60,000	3	2
£60,001–£70,000	1	–
£70,001–£80,000	–	1
£80,001–£90,000	–	–
£90,001–£100,000	1	–

5. TOTAL RESOURCES EXPENDED (CONTINUED)

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

	Permanent staff	Temporary staff	Managerial staff	Capitalised staff costs	2005 Number	2004 (Restated) Number
Fundraising	7	3	2	–	12	14
Trading activities	31	6	1	–	38	38
Collections management	78	9	1	3	91	86
Research & documentation	12	2	8	–	22	24
Exhibitions & display	23	6	1	–	30	26
Learning & access	9	0	1	–	10	9
Publicity & information	4	–	–	–	4	2
Management & administration	27	–	2	–	29	27
	191	26	16	3	236	226

Prior year figures have been restated as Agency and Temporary staff costs are no longer required to be disclosed separately.

Director

The remuneration of the Director, Sandy Nairne, was £90,933 plus a non-consolidated bonus of £5,800 and employer's pension contributions £16,822. The Director's contract of employment is fixed for a period of seven years, effective from November 2002.

The Director's salary and pension entitlements as at 31 March 2005 were as follows:

Salary including Bonus	Real increase in pension	Total accrued pension at age 60 at 31 March 05	CETV at 31 March 04	CETV at 31 March 05	Employee contributions transfer-in	Real increase in CETV after adjustment for and changes in market investment factors
£000	£000	£000	£000	£000	£000	£000
97	0–2.5	15–20	212	246	2.5–5	19

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 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 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.

5. TOTAL RESOURCES EXPENDED (CONTINUED)**b) Trustees**

The trustees neither received nor waived any emoluments during the year (also in 2003/04). Expenses reimbursed to or paid on behalf of two trustees amounted to £366 (£586 in 2003/04).

Trustees are appointed to serve for a period of 4 years with the possibility of renewal for a further 4 years 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 2004	34,860	9,735	1,459	309	2,876	49,239
Additions	–	–	135	–	703	838
Disposals	–	–	(10)	–	–	(10)
Indexation adjustment	3,628	198	(39)	–	–	3,787
Transfer of assets	–	–	309	(309)	–	–
Valuation/cost at 31 March 2005	38,488	9,933	1,854	–	3,579	53,854
Depreciation at 1 April 2004	–	–	1,339	–	–	1,339
Disposals	–	–	(8)	–	–	(8)
Depreciation	593	389	178	–	–	1,160
Indexation adjustment	–	–	(36)	–	–	(36)
Depreciation at 31 March 2005	593	389	1,473	–	–	2,455
Net book value at 31 March 2005	37,895	9,544	381	–	3,579	51,399
Net book value at 31 March 2004	34,860	9,735	120	309	2,876	47,900

The net book value at 31 March 2005 represents fixed assets for:

	Land & buildings £000	Plant & Machinery £000	Furniture & equipment £000	Assets under construction £000	Collection assets £000	Total £000
Charitable activities	33,980	8,557	229	–	3,579	46,345
Other activities	3,915	987	152	–	–	5,054
Total	37,895	9,544	381	–	3,579	51,399

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. In accordance with HM Treasury guidance, all the assets, except for Assets under Construction and Collection Assets have been revalued during 2004/05 using indices published by the Valuation Office and the Office of National Statistics.

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

structural – 50 years, fit-out – 25-30 years and plant and machinery – 20-25 years. Amounts relating to plant and machinery, which were included in the land and buildings category are disclosed separately. 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 was revalued at 31 March 2004 on a depreciated replacement cost of £37.1m.

6. TANGIBLE FIXED ASSETS (CONTINUED)

Orange Street and Charing Cross Road: The land and buildings at 39-45 Orange Street and 1 Charing Cross Road were purchased by the Trustees in 1988/89 for £1.5m. 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 were 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 5 year operating lease, expiring May 2009, these assets have not been capitalised; the Gallery's plant and machinery at this property were valued at 31 March 2004 at £0.47m at existing use.

7. INVESTMENTS

Fixed asset investments

	Charinco £000	COIF £000	2005 £000	2004 £000
Market value at 1 April	18	15	33	32
Net gain/(loss) on revaluation	–	1	1	1
Market value at 31 March	18	16	34	33
Historical cost at 31 March	13	4	17	17
Unrealised investment gains at 31 March	5	12	17	16

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

	2005 £000	2004 £000
Investment assets in the UK	34	33
	34	33

8. THE ROLE OF FINANCIAL INSTRUMENTS

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

Liquidity risk

Approximately 65% 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. The remaining proportion is therefore generated via self-generated income, which is volatile. The risk is managed 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 revenue expenditure is held in general funds.

Interest rate risk

The Gallery draws down its annual Grant-in-Aid allocation according to its monthly cash flow requirements; 99% of the Gallery's financial assets represents cash held for these short term requirements and therefore earns interest at a floating rate. 0% of the Gallery's financial assets carry fixed rates of interest. Little more than 1% of the Gallery's financial assets are held in equities listed on a recognised stock exchange. The Gallery is, therefore, exposed to significant interest rate risk. However, as only a small proportion of income (2004/05–£134,000) is generated from interest earned, this risk is not deemed significant.

8. THE ROLE OF FINANCIAL INSTRUMENTS (CONTINUED)**Interest rate profile**

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

	Floating rate £000	Fixed rate £000	Non-interest bearing £000	Weighted average interest rate %	Weighted average period for which rate is fixed
At 31 March 2005					
Sterling Floating	3,072	–	–	4.21	
Fixed	–	–	–	0.00	1 month
US\$ Currency	169	–	–	0.03	
Euro Currency	2	–	–	0.00	
Other	–	–	34		
	3,243	–	34		
At 31 March 2004	£000	£000	£000		
Sterling Floating	1,916	–	–	3.30	
Fixed	–	119	–	3.00	1 month
US\$ Currency	112	–	–	0.00	
Euro Currency	2	–	–		
Other	–	–	33		
	2,030	119	33		

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

Reconciled to the Account

	2005	2004
	£000	£000
Fixed Asset Investments	34	33
Current Asset Investments	–	–
Cash at Bank	3,243	2,149
Total	3,277	2,182

Foreign currency risk

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

9. DEBTORS AND REPAYMENTS

	2005	2004
	£000	£000
Trade debtors	400	347
Less Provision for Bad Debts	(2)	(5)
	398	342
Other debtors	66	259
Prepayments	5	19
Accrued income	108	233
Tax recoverable	45	12
	622	865

There were no material balances between Whole of Government Accounts bodies as 31st March, 2005.

10. CREDITORS AND ACCRUALS

Creditors falling due within one year

	2005	2004
	£000	£000
Trade creditors	-	-
Other creditors	72	17
Taxation and social security	116	157
Accrued expenses	682	626
Deferred income	249	135
	1,119	935
of which creditors for capital expenditure:	10	45

There were no material balances between Whole of Government Accounts bodies as 31st March, 2005.

11. STATEMENT OF FUNDS

	Note	Restated Balance at 1 April 2004 £000	Income £000	Expenses £000	Net gains/ losses £000	Transfers £000	Balance at 31 March 2005 £000
Unrestricted funds							
Designated funds:							
Collections Purchase Fund	12	17	-	-	-	(8)	9
Collections Designated Fund	12	-	324	-	-	(324)	-
Capital Projects Reserve Fund* #	12	6,411	35	297	482	(4)	6,627
Investment & Contingency Fund ~	12	1,061	-	-	-	399	1,460
The Portrait Acquisitions Fund	12	-	-	-	-	474	474
Deferred Projects Fund	12	456	-	338	-	162	280
Total designated funds		7,945	359	635	482	699	8,850
General Funds							
Retained Surpluses		876	10,228	9,204	1	(1,023)	878
Total unrestricted funds		8,821	10,587	9,839	483	(324)	9,728
Restricted funds							
Development Projects Fund #	13	19,718	100	586	1,240	-	20,472
Capital Reserve Fund (Non-donated Assets) #	13	9,105	-	83	1,303	-	10,325
Capital Reserve Fund (Donated Assets) #	13	9,793	-	196	799	-	10,396
Capitalised Acquisitions Fund	13	2,876	228	-	-	475	3,579
Total Capital Reserve Funds*		41,492	328	865	3,342	475	44,772
Sponsorships & Donations ~	13	413	944	838	-	(46)	473
HLF/NHMF	13	-	185	80	-	(105)	-
NPG 2000 Fund	13	-	-	-	-	-	-
Dame Helen Gardner Bequest	13	6	3	-	-	-	9
		6	188	80	-	-105	9
Total restricted funds		41,911	1,460	1,783	3,342	324	45,254
Total Funds		50,732	12,047	11,622	3,825	-	54,982

* 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.

The opening balances have been restated to allocate more accurately the capital reserves at 31 March 2004 to the related fixed assets, following the revaluation of land, buildings, plant and machinery at that date. In total, unrestricted capital reserves decreased by £2.1 million from £8.5 million to £6.4 million and restricted reserves increased from £39.4 million to £41.5 million (see Note 13 also).

~ The opening balances have been restated due to the release of £0.25 million expended on funded projects in 2003/04; the opening balance of the Investment and Contingency Fund increased from £0.81 million to £1.06 million while that on the Sponsorship and Donations Fund decreased from £0.66 million to £0.41 million.

12. DESIGNATED FUNDS

	£000	2005 £000	2004 £000
COLLECTIONS PURCHASE FUND			
Purchases during 2004/05 for the enhancement of the Primary collection which were funded by the Grant-in-Aid allocation amounted to £313,000 (£352,000 in 2003/04). Movements on the reserve were as follows:			
Balance at 1 April		17	65
Add:	Grant-in-Aid allocation	305	305
Less:	Acquisitions for Primary Collection	<u>(313)</u>	(353)
Transfers		<u>(8)</u>	-
Balance as at 31 March		<u><u>9</u></u>	<u><u>17</u></u>

COLLECTIONS DESIGNATED FUND

Balance as at 1 April	-	-	
Purchases for the Primary and Photographs Collections during the year		324	418
Transfer to Capitalised Acquisitions Fund		<u>(324)</u>	(418)
Balance as at 31 March		<u><u>-</u></u>	<u><u>-</u></u>

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

CAPITAL PROJECTS RESERVE FUND

Balance as at 1 April		6,411	8,081
Income during the year designated by the Trustees		<u>31</u>	358
		6,442	8,439
Less:	Depreciation for year	(297)	(360)
Add:	Indexation adjustments/revaluation	<u>482</u>	(1,668)
Balance as at 31 March		<u><u>6,627</u></u>	<u><u>6,411</u></u>

This fund represents the net book value of all fixed assets which have not been funded from restricted income. The opening balance has been decreased by £2.1 million from £8.5 million to £6.4 million to allocate more accurately the capital reserves at 31 March 2004 to the related fixed assets, following the revaluation of land, buildings, plant and machinery at that date.

INVESTMENT AND CONTINGENCY FUND

Balance as at 1 April		1,061	1,230
Transfers from:	Retained Surpluses	399	421
	NPG 2000 Fund	-	3
Expenditure during the year		<u>-</u>	(593)
Balance as at 31 March		<u><u>1,460</u></u>	<u><u>1,061</u></u>

This fund represents a designation of surpluses to be invested in projects in accordance with the reserves policy. The opening balance has been restated as £1.061m, an increase of £249,000 on the £812,000 balance as previously stated; this is due to the release of £249,000 from the Sponsorships and Donations Fund for amounts expended on funded projects in 2003/04.

12. DESIGNATED FUNDS (CONTINUED)

THE PORTRAIT ACQUISITIONS FUND

	£000	2005 £000	2004 £000
Balance as at 1 April		-	-
Income during the year		-	-
Expenditure during the year		-	-
Transfers from Retained Surpluses		474	-
		<hr/>	<hr/>
Balance as at 31 March		474	-
		<hr/> <hr/>	<hr/> <hr/>

This fund represents funds designated for the development of the collection, including 2004/05 unrestricted legacies.

DEFERRED PROJECTS FUND

Balance as at 1 April		456	551
Expenditure during the year		(338)	(439)
Transfers from Retained Surpluses		162	344
		<hr/>	<hr/>
Balance as at 31 March		280	456
		<hr/> <hr/>	<hr/> <hr/>

This fund represents underspends generated in 2004/05 which are to be employed in projects during 2005/06.

13. RESTRICTED FUNDS

DEVELOPMENT PROJECTS FUND

Balance as at 1 April		19,718	20,952
Add:	Income for year	100	-
Less:	Depreciation for year	(586)	(586)
Add/(less):	Indexation adjustments/revaluation	1,240	(648)
		<hr/>	<hr/>
Balance as at 31 March		20,472	19,718
		<hr/> <hr/>	<hr/> <hr/>

This fund represents the net book value of fixed assets that have been funded from restricted income. The opening balance has been increased by £1.4 million from £18.3 million to £19.7 million to allocate more accurately the capital reserves at 31 March 2004 to the related fixed assets, following the revaluation of land, buildings, plant and machinery at that date.

CAPITAL RESERVE FUND (NON-DONATED ASSETS)

Balance as at 1 April		9,105	11,033
Less:	Depreciation for year	(83)	(85)
Add/(less):	Indexation adjustments/revaluation	1,303	(1,843)
		<hr/>	<hr/>
Balance as at 31 March		10,325	9,105
		<hr/> <hr/>	<hr/> <hr/>

This fund represents the net book value of vested fixed assets funded from self-generated income. The opening balance has been decreased by £4.9 million from £14.0 million to £9.1 million to allocate more accurately the capital reserves at 31 March 2004 to the related fixed assets, following the revaluation of land, buildings, plant and machinery at that date.

13. RESTRICTED FUNDS (CONTINUED)**CAPITAL RESERVE FUND (DONATED ASSETS)**

	£000	2005 £000	2004 £000
Balance as at 1 April		9,793	8,093
Less: Depreciation for year		(196)	(194)
Add/(less): Indexation adjustments/revaluation		799	1,894
Balance as at 31 March		<u>10,396</u>	<u>9,793</u>

This fund represents the net book value of fixed assets funded by donations. The opening balance has been increased by £5.6 million from £4.2 million to £9.8 million to allocate more accurately the capital reserves at 31 March 2004 to the related fixed assets, following the revaluation of land, buildings, plant and machinery at that date.

CAPITALISED ACQUISITION FUND

Balance as at 1 April		2,876	2,096
Funded acquisitions during the year		228	375
Transfers from/(to): Collections Designated Fund	324		418
Sponsorships & Donations	46		(29)
HLF	105		–
Dame Helen Gardner Bequest	–		16
		<u>475</u>	
Balance as at 31 March		<u>3,579</u>	<u>2,876</u>

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

SPONSORSHIPS & DONATIONS

Balance as at 1 April		413	321
Income during the year		944	1,088
Expenditure during the year		(838)	(1,025)
Transfers from/(to): Capitalised Acquisitions Fund		(46)	29
Balance as at 31 March		<u>473</u>	<u>413</u>

This fund represents the balance remaining to be spent from donations given for a specified purpose. The opening balance has been restated as £413,000, a decrease of £249,000 on the £662,000 balance as previously stated; this is due to the release of £249,000 to the Investment and Contingency Fund (as per Note 12).

HERITAGE LOTTERY FUND / NATIONAL HERITAGE MEMORIAL FUND

Balance at 1 April		–	–
Income during the year		185	127
Expenditure during the year		(80)	–
Transfer to Capitalised Acquisitions Fund		(105)	(127)
Balance at 31 March		<u>–</u>	<u>–</u>

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

13. RESTRICTED FUNDS (CONTINUED)**NPG 2000 FUND**

	2005	2004
	£000	£000
Balance as at 1 April	–	–
Income during the year	–	3
Transfers to: Retained Surpluses	–	(3)
	<hr/>	<hr/>
Balance as at 31 March	<u>–</u>	<u>–</u>

This fund represents public donations to the Ondaatje Wing.

DAME HELEN GARDNER BEQUEST

Balance as at 1 April	6	17
Income during the year	3	5
Transfers to: Capitalised Acquisitions Fund	–	(16)
	<hr/>	<hr/>
Balance as at 31 March	<u>9</u>	<u>6</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 2005 are represented by:

	Unrestricted	Restricted	Total
	£000	£000	£000
Tangible Fixed Assets	6,627	44,772	51,399
Investments	34	–	34
Current Assets	4,186	482	4,668
Current Liabilities	(1,119)	–	(1,119)
	<hr/>	<hr/>	<hr/>
Total Net Assets	9,728	45,254	54,982

Unrealised gains included above:

On investment assets	17	–	17
	<hr/>	<hr/>	<hr/>
Total unrealised gains at 31 March 2005	17	–	17

15. FINANCIAL COMMITMENTS

As at 31 March 2005 the Gallery had annual commitments under non-cancellable operating leases as follows:

	2005		2004	
Operating leases which expire:	Land and buildings	Furniture and equipment	Land and buildings	Furniture and equipment
	£000	£000	£000	£000
Two to five years	<u>56</u>	–	<u>45</u>	<u>30</u>

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

16. CAPITAL COMMITMENTS

As at 31 March 2005 the National Portrait Gallery had £9,594 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*

	2005	2004
	£000	£000
Net (incoming)/outgoing resources/surplus before revaluations	425	(319)
less: Investment income	(134)	(75)
Donated acquisitions	(124)	(87)
Loss on disposal of fixed assets	1	–
Depreciation	1,160	1,225
Decrease in debtors	243	11
Increase in creditors	105	168
Increase in deferred income	114	103
(Increase) in stocks	(83)	(14)
Net cash flow from operating activities	<u>1,707</u>	<u>1,012</u>

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

Payments to acquire tangible fixed assets	<u>(747)</u>	<u>(1,173)</u>
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Management of liquid resources

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

Interest received	132	73
Investment dividends	2	2
	<u>134</u>	<u>75</u>

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

Increase in cash in period	1,094	30
Cash flow from change in liquid resources	–	(116)
Movement in net funds in the period	1,094	(86)
Net funds at 1 April	2,149	2,235
Net funds at 31 March	<u>3,243</u>	<u>2,149</u>

d) Analysis of net funds

	1-Apr-04	Cash flow	31-Mar-05
	£000	£000	£000
Cash at bank and in hand	2,149	1,094	3,243
Net funds	<u>2,149</u>	<u>1,094</u>	<u>3,243</u>

18. TRADING ACTIVITIES – RETAIL, PUBLICATIONS AND PICTURE LIBRARY

	2005	2004
	£000	£000
Trading turnover for the year	2,430	2,081
less: Cost of goods sold	(768)	(798)
Gross profit	1,662	1,283
less: Staff costs	(740)	(723)
Direct overheads	(225)	(177)
Allocation of Director's salary, maintenance & office expenses	(28)	(26)
	669	357
Reconciliation to Note 5		
Direct salaries	740	723
Allocation of Director's salary, maintenance & office expenses	28	26
Total salaries as Note 5	768	749
Cost of goods sold	768	798
Direct overheads	225	177
Total costs as Note 5	993	975
Staff costs include salaries and employer's costs.		
Net assets held for trading at 31 March 2005 comprise:		
Current assets		
Stock	803	720
Debtors	115	110
	918	830
Current liabilities		
Creditors	6	–
Accruals	89	66
	95	66
Net assets	823	764

19. CONTINGENT LIABILITIES

There were no material contingent liabilities at 31 March 2005

20. POST BALANCE SHEET EVENTS

In July 2005, Sir David Scholey, CBE, retired as Chair and Professor David Cannadine, FBA, FRSL, previously Deputy Chair, assumed the role. At the same time Ms Amelia Fawcett, CBE, took up the role of Deputy Chair. There were no other post balance sheet events.

21. RELATED PARTY TRANSACTIONS

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

<u>Related Party</u>	Amount purchased £000	Amount sold £000	Donations/ grants awarded £000
British Film Institute	1	1	–
British Library	2	2	–
British Museum	9	–	–
Imperial War Museum	6	1	–
National Gallery	81	2	–
National Heritage Memorial Fund	–	–	105
Tate Gallery	7	2	–
Victoria & Albert Museum	1	–	–
National Maritime Museum	–	1	–
National Museum of Science & Industry	5	–	–
Wallace Collection	1	–	–
Heritage Lottery Fund	–	–	80

Other Related Party Transactions

Trustees: Trustee Mr Tom Phillips curated the *We Are The People* exhibition at the Gallery (March to June 2005) and prepared the accompanying publication (of which he was entitled to twelve free copies and further copies at a 35% discount). Sir Christopher Ondaatje donated £5,000 towards a fundraising event. Professor Ludmilla Jordanova signed a contract to be paid £850 for her essay for the *SELF PORTRAIT: Renaissance to the Contemporary* catalogue (to be published to coincide with the opening of the exhibition of the same name in October 2005).

