

MUSEUMS AND GALLERIES ACT 1992

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

National Portrait Gallery Annual Report and Accounts 2005-2006

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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 2006. The Accounts have been prepared in a form directed by the Secretary of State for Culture, Media and Sport with the consent of the Treasury in accordance with sections 9(4) and 9(5) of the Museums and Galleries Act 1992 and are presented in accordance with the reporting requirements of the Statement of Recommended Practice (revised 2005), *Accounting and Reporting by Charities*.

The Annual Report sets out:

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

Structure, Governance and Management (including Administrative Details)

Constitution

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 This act superseded the Treasury Minute of 2 December 1856 by which the Gallery was originally established.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

History and Background

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

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

The Primary Collection of paintings, sculpture, miniatures, drawings, prints and photographs contains some 10,600 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 6,500 works on paper, shown on a rotating basis of about 300 items a year. Normally items not on display can readily be made available for viewing via the Collections Manager. The Collection is also made widely available via the Woodward Portrait Explorer in the IT Gallery, by CD-Rom, on the internet (at npg.org.uk) and in Gallery and other publications.

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

The collection has been housed at St Martin's Place since 1896. The building, designed by Ewan Christian, was the gift of William Henry Alexander. An extension was built in the 1930s from funds provided by Sir Joseph (later Lord) Duveen. 1993 saw the opening of a permanent home in Orange Street for the Gallery's archive and library, funded by the Drue Heinz Foundation, together with new offices and a conservation studio. The most recent addition was

the Ondaatje Wing in 2000, providing additional gallery space, improved visitor facilities and a new lecture theatre, funded by Sir Christopher Ondaatje, the Heritage Lottery Fund and several donors. In 2004, the refurbished Regency display in the Weldon Galleries completed a ten year programme of buildings renewal.

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

Structure, Governance and Management

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

A list of Trustees during 2005/06 and up to the date on which the accounts were signed is at page 25. Following their appointment, new Trustees are given a Trustees handbook, policy papers and a full induction about the National Portrait Gallery and their terms of appointment, duties, rights and responsibilities. There is a Register of Trustees' Interests, disclosing details of company directorships and other significant interests held, which is open to the public and can be accessed in The Heinz Archive and Library.

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

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

Details of the Gallery's external advisers are at page 25.

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

Objectives

Objects and Key Policies of the Gallery

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

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

In pursuing these aims the Gallery recognises the need to make the most efficient use of its assets and to generate income to supplement government grants. This income is generated from activities such as sponsorship, corporate and individual membership schemes, publishing and trading. Grant-giving bodies provide welcome support for acquisitions and 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 staff and management meetings provide a forum for discussion of staff issues. The Gallery continues to receive valuable support from volunteers, especially in the Archive and Library and Learning and Access (detailed on page 18).

Objectives and Targets

During 2005/06, the Gallery negotiated the latest three-year Funding Agreement with the Department for Culture, Media and Sport for 2005 to 2008, which includes seven key targets relating to audiences, income generation and efficiency. Funding Agreement targets are reviewed annually and revised where appropriate. Reference is made to these targets throughout the Annual Report with the Gallery's achievement against the 2005/06 targets (with comparators for previous years, where appropriate) detailed on page 27.

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

Charitable activities

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

Increasing and developing resources

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

150th Anniversary

In 2006, the 150th anniversary of the Gallery's foundation provides an exceptional opportunity to celebrate the past, to enhance the Gallery's reputation and fundraise and to look to the future with determination. Much of 2005/06 was taken up with preparing the exhibitions and displays, talks, specially composed music and public activities for the Anniversary programme. 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 Fund and will give special acknowledgement to this support in 2006 as part of the Anniversary celebrations. More details are provided on page 9.

Activities, Performance and Planned Future Developments

(1) Extending and broadening audiences

Visitor numbers

The programme of exhibitions, displays and activities continues to be hugely popular. Visitor numbers for 2005/06 were 1.53 million, representing 4% growth on the 1.47 million visitors in 2004/05 and surpassing 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 2005/06 target of 1.45 million in the Funding Agreement with the Department for Culture, Media and Sport. Including the 190,000 visits made to national partners (225,000 in 2004/05), total visitor numbers were 1.72 million, compared to 1.70 million in 2004/05. This increase at the Gallery has been achieved in spite of the London bombings in July 2005 and the weak US dollar, factors which had a significant negative effect on tourism in London and the museums and galleries sector as a whole.

The *BP Portrait Award* exhibition received the highest number of visitors in its history (188,000) and the Schweppes Photographic Portrait Prize exhibition attracted 184,000, an increase of 33% on the previous year. *Icons and Idols: Commissioning Contemporary Portraits* welcomed 211,000 visits, almost the Gallery's highest ever visitor numbers to a non-charging exhibition. *The World's Most Photographed*, the first Porter Gallery exhibition with an admission charge, exceeded its attendance target by 70%, attracting over 85,000 people, and *SELF PORTRAIT Renaissance to Contemporary* became the second most popular ticketed exhibition of paintings ever at the Gallery, with an attendance figure of over 63,000. Further details of the Gallery's exhibitions and displays programme are provided on page 11.

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 ratio of repeat to first-time ever visitors, according to fieldwork by MORI, increased to 79 to 21 from 74 to 26 in 2004/05 and 99% of participants questioned in visitor research said they would be likely to recommend the Gallery to their friends. 30% of visitors had visited the Gallery more than 10 times ever and 12% had visited 5 times or more in 2005/06. However the Gallery is also successful in attracting new audiences, which is particularly well illustrated by the numbers of visitors attending the exhibitions created from the *Reaching Out, Drawing In* project (see page 7); for the *Family Faces* exhibition, 27% came from black and minority ethnic communities, 41% came in family groups and 63% were first-time visitors to the Gallery.

Contributing to the repeat visits are the Gallery's valued Members, whose numbers were boosted in 2005/06 by special promotions and improved retention rates, increasing by 22% to 2,458 at 31 March 2006 from 2,017 at 31 March 2005; across the next three years, the Gallery aims to maintain both growth in numbers, in particular through recruiting in connection with the 150th anniversary celebrations, and retention rates.

There were 75,000 visits during the year by adults in socio-economic categories NS-SEC groups 5-8 (defined by the Office of National Statistics as lower supervisory and technical, semi-routine and routine occupations, never worked or long-term unemployed), compared to 142,000 visits made by those in social categories C2, D or E (a broadly similar definition used prior to 2005/06) in 2004/05 (which had included an exhibition about women travellers with exceptionally broad appeal); however the total exceeded the 70,000 anticipated in the Funding Agreement by 7%. For similar reasons, the 81,000 visits by children were less than the 93,000 visits in 2004/05 but were 8% above the 75,000 target under the Funding Agreement and represent a 14% increase from the 71,000 visits of 2003/04.

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, 79,000 learners participated in on-site and outreach classes, lectures and other activities during 2005/06 (a slight decrease from the 82,000 learners in 2004/05). Against the 40,000 target in the Funding Agreement, the total number of children participations in organised educational programmes during 2005/06 was 40,300 (a 6% decrease from 2004/05, when numbers of schools visits were exceptionally high). There was a drop in schools bookings after 7 July 2005 and attendances on the public programme during the summer and early autumn 2005 were noticeably quiet.

Complementing the public programme, the Gallery's website continued to grow in popularity and to improve access to the Gallery's collections and work. The website registered almost 7.3 million user sessions by 3.5 million people during 2005/06, a 62% increase on the previous year's figure of 4.5 million and comfortably achieving the Funding Agreement target of 6.25 million. The Gallery has the third most visited art website in the country (source: Hitswise) with 73% of all visits being linked to searching the collection.

Market research and evaluation

The internal Evaluation Group undertook a review of the Gallery's research and evaluation needs and in 2006/07 a new programme of research will help to gain a better understanding of the visitor experience and the perceptions, motivations and attitudes of the visitor towards the Gallery.

Underground poster and press advertising campaigns were undertaken for all major exhibitions. MORI's research showed that a significant proportion of visitors were finding out about the Gallery from print media: 26% from newspapers and 18% from magazines, while 17% had seen the Underground posters. Advertising was supported by the exhibition leaflets, the quarterly events booklet and the monthly email newsletter, which attracted over 26,000 subscribers, an increase of 8% on 2004/05.

Evening events

Late-night openings continue to grow in popularity and the Gallery is examining the possibility of extending to Saturday evenings. Among highlights of the Friday night music series, now in its sixth year, have been two of the concerts in the *Art of Music* series sponsored by the Performing Right Society Foundation (PRSF), commissioned to celebrate the Anniversary: Marque Gilmore and Richard Benjafeld with *Inna-Groove-Dimensions* and Jane Harbour with *Small Mammal Mirror*. The Gallery was full to overflowing when the Concordia Foundation presented a very popular Dickensian Christmas evening.

Ongoing partnerships have been established with other organisations involved in promoting outstanding young musicians, including Live Music Now and the Royal Academy of Music, while as part of an association with the Royal Over-Seas League, Viv McLean presented a solo piano recital featuring Mussorgsky's *Pictures at an Exhibition*.

Highlights of the Thursday evening programme in the Ondaatje Wing Theatre have included an extremely popular series of talks related to the Shakespeare exhibition by the writers and historians Bill Bryson, Michael Wood and Peter Ackroyd, and lectures and discussions featuring John Berger, Antonia Fraser, Michael Holroyd, Helena Kennedy and Laurie Taylor. The last Thursday of every month is the free Film Night – programmed with the Artists on Film Trust.

Families and young people

Over 2,000 families took part in the Family Programme last year and the Gallery has identified the development of family audiences as a key priority for the next three years.

The core programme, of monthly, half-term and holiday activities involving practical art, craft, performance and storytelling, has been growing steadily. It includes new sessions aimed at the under-fives and there is a Family Activities booklet available free to all children aged between 6 and 12. More outreach work has been added to the programme, such as the start of an innovative project focusing on animation, organised in partnership with Family Learning Groups in Haringey. These groups visited the Gallery and worked with professional animators to create images inspired by the Collection linked to the theme of festivals.

The growth in family audiences has partly resulted from improvements in marketing and the special section on the website, and partly from the introduction of high-profile events linked to national initiatives such as Children's Art Day, Art on the Square and The Big Draw. The artist and photographer Grace Lau recreated an 1850s Chinese portrait studio in the Main Hall as part of the celebrations for Chinese New Year. Visitors were invited to pose for their portrait photographs against a traditional Chinese studio backdrop and furnishings and then to take away postcard printouts of the image. Over 400 adults and children attended the event.

Teenagers and young adults represent another audience priority and a new post was created in 2005/06 to develop programmes for 14–21-year-olds outside of school and formal learning. The Gallery has a strong track record of delivering workshops for this age group, and aims to extend the scope and reach of these activities – particularly using photography, film and new media – and to engage young people with other areas of the Gallery's work such as public events, the website and interpretation.

Adults, schools and colleges

The Adult Programme provides a wide variety of talks, lectures and discussions related to Gallery exhibitions and displays. There have been a number of new developments, including the introduction of a regular series of Artists' Talks featuring Chuck Close, Sam Taylor-Wood, Marlene Dumas, Peter Blake and Dryden Goodwin among others.

A second initiative has been the introduction of courses, study days and practical workshops. These range from intensive, one-day events to four-week courses led by specialist tutors. Such projects cater for a wide range of different levels and are intended to encourage discussion and creativity among participants.

The Schools and Student programmes have continued to grow, with 35,800 groups involved in taught sessions and another 45,600 students visiting in self-directed groups. Secondary sessions on citizenship have been added to the core provision around art and history. 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.

Online resources are becoming an increasingly important area and resources have been developed for 14–16-year-olds on self-portraiture, women's suffrage and the portrait-commissioning process.

Conferences have included *Self-Portraiture: Making, Medium and Mirroring*, supported by the Paul Mellon Centre for Studies in British Art. A one-day symposium was set up with the University of Westminster on the theme of *Photography and Celebrity*, and a series of seminars led by artists, critics and curators explored aspects of contemporary portraiture.

Projects to mark the Gallery's 150th Anniversary in 2006 included a special event entitled *Picturing Britons: Identity, Achievement and Celebrity*, with a keynote lecture given by the Chair of Trustees, Professor David Cannadine, which explored the themes that underpin the history and future work of the Gallery.

Boosted by the successful public programme and conferences and the introduction of study days and workshops, Learning and Access income increased by 88%, more than reversing the 47% decrease in 2004/05.

Outside the Gallery

The Access and Outreach programmes have grown substantially. Approximately 150 children and young people have participated in the Hospital Schools programme, an increase of 21% compared to 2004/05. Adult outreach has included a one-year project run in partnership with the Royal National Institute of the Blind and the Phoenix Haringey Group, and a project developed with Chance UK, training mentors to work with children with behavioural difficulties.

We continue to deliver a large number of workshops for pupils with Special Educational Needs, with numbers increasing 7% compared to 2004/05. Work with young people has focused on local boroughs and included a pilot project with Barnardo's. The Gallery has also been working with Look Ahead Housing, delivering photography workshops for homeless young people, and has continued its involvement with the Connect charity. Our video-conferencing programme continues to grow with 4,173 school children, adults and families participating and with sessions delivered reaching schools as far afield as Cyprus, Germany and the USA.

The Studio Gallery

Family Faces was the second of the exhibitions in the *Reaching Out, Drawing In* programme supported by the Heritage Lottery Fund. 60% of the project participants were drawn from asylum-seekers and refugee groups. Participants worked with the ceramicist Matt Sherratt to create clay sculptures that explored their individual and cultural identities, and made their own family portraits inspired by works that they had seen at the Gallery. 187 people participated and over 54,000 visitors attended the show. A section of the exhibition went on to form part of a successful display at the Bruce Castle Museum in Tottenham.

The next exhibition, *Look at Me*, involved working with 8 different groups of young people, aged 11 to 26, all from hard-to-reach backgrounds. The project explored young people and identity through the medium of self-portraiture and was linked to the Gallery's main exhibition *SELF PORTRAIT Renaissance to Contemporary*. The exhibition received 64,000 visitors, over 10,000 more than its target.

National partnerships

At Beningbrough Hall, Yorkshire, the success of a joint National Trust and National Portrait Gallery funding application to the Heritage Lottery Fund has enabled the development of an exciting hands-on interpretation project, *Making Faces – Eighteenth Century Style*, which opened in June 2006.

A new partnership between Bodelwyddan Castle and the National Museums of Wales led to a three-way collaboration focusing on an exhibition called *Faces of Wales*, which included prominent works from both national collections.

Several collaborative projects took place with the North East Regional Museums Hub, among them *Collingwood and Nelson: Heroes of Trafalgar* at South Shields Museum and Art Gallery. The exhibition drew on the archive collection at the National Portrait Gallery, as well as objects from the Tyne & Wear Museums Service. The Gallery also worked with the Museums Hub on other exhibitions and on skills exchange between staff.

Deloitte, the Gallery's Contemporary Photography Displays Partner, supported the exhibition *Exposure: Focusing on Photographs from the National Portrait Gallery Collection* at the Laing Art Gallery, Newcastle-upon-Tyne, the underlying theme of which was people who have challenged convention.

Over 30 staff from across the Gallery met their opposite numbers and took part in evaluation exercises at both Montacute House and Bodelyyddan Castle. In addition, short secondments from staff at regional venues were arranged at the Gallery in the following areas: curatorial, learning and access, art handling and senior management.

People, Places and Portraits

This project, funded by the Department for Culture, Media and Sport/Department for Education and Skills (DCMS/DfES) Strategic Commissioning Funding, has gone from strength to strength, focusing on learning programmes around a series of portrait exhibitions. The Gallery worked again with Sheffield Galleries and Museums Trust on projects grouped around the collaborative exhibition *Heroes and Villains: The National Portrait Gallery Collection through the Eyes of Gerald Scarfe*, which contained a variety of media, including archive material, that had influenced the caricaturist Scarfe. A website for teachers was developed in tandem with this project.

The Gallery worked with Manchester Art Gallery in a project for which the poet Benjamin Zephaniah selected photographs on themes of particular personal interest to him and led several workshops.

Audience development programmes at Beningbrough and Montacute, Somerset, were again funded through this scheme and activities drew more than 8,500 children to these two great houses. New interpretation at Montacute House was monitored and evaluated throughout the year.

Other elements of the *People, Places and Portraits* project included the presentation of the *BP Portrait Award* in Sunderland with its associated learning programme. The Gallery has been awarded DCMS/DfES Strategic Commissioning Funding for a fourth year in 2006/07.

Loans

Long and short-term loans are a mainstay of the Gallery's activity and presence around the country. 211 short-term loans were made to 42 venues in the UK, while 38 short-term loans were made to 21 venues abroad. 590 objects are on long-term loan.

In 2006/07 the Gallery will continue the process of reviewing its long-term loans programme to develop opportunities to make further loans. It is also hoping to set up an additional partnership with a regional Museums Hub.

Media collaboration

The Gallery collaborated with the TV production company Illuminations to produce a major two-part documentary on British portraiture. Drawing on the expertise of Gallery curators, *The British Face* was filmed extensively in the Gallery; presented by the actress Fiona Shaw, it was shown on Channel Five.

The Gallery worked with BBC Two in the successful development of *The World's Most Photographed*, both exhibition and accompanying book. A ten-part BBC Two series ran over the summer and featured the ten subjects, who ranged from Queen Victoria to Audrey Hepburn. Viewing figures averaged 1.1 million with 1.54 million watching the programme about Elvis Presley.

The arts magazine *The Culture Show* on BBC Two worked closely with the Gallery on its landmark *Searching for Shakespeare* exhibition, producing three films. The programme-makers were given access to the scientific research carried out by the Gallery on three of the portraits which have had strong claims to be of William Shakespeare, including the Gallery's founding portrait, the 'Chandos'.

The BBC One flagship arts programme *Imagine* devoted a programme to Chuck Close to coincide with the *SELF PORTRAIT* exhibition. As well as these collaborations there was regular broadcast news coverage throughout the year of acquisitions, exhibition openings, displays and events such as the launch of the John Donne appeal (see page 9) and *The Sunday Times* and *The Times* became the Gallery's media partners for the Anniversary year.

(2) Developing the Collection

Acquiring great and significant portraits for the Collection has become increasingly dependent on engaging public support as portraits become more expensive. Of particular note was the generous continued support of The Art Fund. We are also especially grateful to the National Heritage Memorial Fund and to Camelot Group plc, to members of the Chelsea Arts Club and to numerous private donors led by Sir Christopher Ondaatje and Mrs T.S. Eliot.

Portrait Fund

Progress continued during the year with the setting up of the Gallery's Portrait Fund, the object of which will be to assist the Gallery to acquire important portraits for the Collection and to cover the cost of related research, conservation, display and interpretation. The fund will operate under its own trust deed; the three founding Trustees of the Portrait Fund are David Cannadine, Amelia Chilcott Fawcett and Lady Douro, from the Gallery's own Board of Trustees. The first contributions to the Fund are from the unrestricted Lord Marcus Sieff and Viscountess Eccles legacies (£583,000 from the latter being received in 2005/06); the Fund stood at just over £1 million at 31 March 2006. The Gallery will be seeking to build up this Fund as a crucial source of support for the Gallery's ongoing efforts to acquire significant works and we hope to find more contributions from those devoted to British history and portraiture. For further information about supporting the Gallery and the Portrait Fund please contact Pim Baxter, Communications and Development Director.

Acquisitions

One of the outstanding acquisitions of the year, Sir Peter Lely's bold and striking portrait of Barbara Villiers, Duchess of Cleveland, with her son, as Madonna and Child, was the subject of a public appeal to which many hundreds of supporters contributed, whether in person when visiting the Gallery or through the appeal on the website. Another early portrait, a fine miniature by Nicholas Hilliard, depicts the youthful Francis Bacon, philosopher and future Lord Chancellor, on an embassy to France. The Gallery was particularly grateful to receive this miniature from the government through the procedure for accepting works of art in lieu of tax, administered by the Museums, Libraries and Archives Council.

Early in 2006, the quest for acquisitions of the highest quality became dominated by an appeal for funds to purchase the most famous of Elizabethan love portraits, the great Ancram portrait of the poet John Donne of circa 1595. In May the Gallery was able to announce that it had raised the £1.4 million needed, through the generosity of the National Heritage Memorial Fund and the Art Fund, many benefactors and an unprecedented number of donations from the general public. In Spring 2007 the portrait will undergo a programme of conservation before returning on permanent display to join the Gallery's unrivalled group of renaissance author portraits including William Shakespeare, Ben Jonson and Michael Drayton.

From the eighteenth and nineteenth centuries, three acquisitions stand out: Giles Hussey's drawing of Charles Jennens, librettist of Handel's *Messiah*, John Raphael Smith's extraordinary pastel of the radical politician John Horne Tooke, and a pair of photographs by Alessandri of Rome of the poets Robert Browning and Elizabeth Barrett Browning, dating to 1860.

As usual the twentieth century proved a fertile field for acquisitions. Paintings included two works by Vanessa Bell, her portrait of the novelist Aldous Huxley and her Bloomsbury group picture, *The Memoir Club*. Other purchases included Anthony Devas's portrait of his friend, the writer and poet, Laurie Lee, painted in 1944, and Derrick Greaves's head of fellow artist Jack Smith, from about 1950.

Among many fine works on paper, particularly notable were two Dora Carrington pencil drawings, a self-portrait and a study of the biographer and literary reviewer Lytton Strachey, both from the 1910s, Wyndham Lewis's chalk of the poet Ezra Pound dating to 1920, Sir William Rothenstein's drawings from the 1920s of the writer Vita Sackville-West and her husband Sir Harold Nicolson, bequeathed by their son Nigel Nicolson, Sylvia Plath's evocative pen sketch of her husband, the poet Ted Hughes, drawn in about 1957, and R.B. Kitaj's magnificent charcoal profile of the philosopher Richard Wollheim.

Historic photographs were acquired of Keir Hardie (socialist leader), Vita Sackville-West, William Gaskell (theatre and opera director) and Robert Gittings (poet, biographer and playwright), as well as two group portraits, Herbert Ponting's atmospheric *Captain Scott's Birthday Dinner*, from Scott's Antarctic expedition, and Nigel Henderson's photograph of four artists featuring in the exhibition *This is Tomorrow*.

Contemporary works included Platon Antoniou's photograph of the politician Gordon Brown and a strong group of ten drawings of actors and actresses by Stuart Pearson Wright.

Commissions

As the Gallery celebrates twenty-five years of commissioning portraits with the *Icons and Idols* exhibition, this has been an exciting year too for new commissions. Stuart Pearson Wright's innovative *trompe l'oeil* portrait of the novelist J.K. Rowling, a BP commission, was unveiled to enormous public interest, while Paula Rego's extraordinary pastel of the playwright Sir David Hare, made possible by JPMorgan through the Fund for New Commissions, together with Sir Christopher Ondaatje and the Art Fund, formed an important addition to the Collection. Other intriguing commissions that illustrate the range of artists working with portraiture today included Tony Bevan's of the concert pianist Alfred Brendel, Michael Reynolds's of the conductor Bernard Haitink, Andrew Festing's of the historian Sir Michael Howard, Arturo di Stefano's of the writer Jan Morris, John Keane's of the trade unionist Sir William Morris and Rupert Bathurst's drawing of the businessman Sir David Scholey.

As part of the Deloitte Contemporary Photography Displays partnership two major group commissions have now been completed. The first, 18 colour photographs by Adam Broomberg and Oliver Chanarin of key figures in the world of telecommunications, led to a display, *Defying Distance*, in summer 2005. A second commission, for 16 images by Julia Fullerton-Batten of outstanding figures who have shaped healthcare, is being shown in a display, *A Picture of Health*, in June 2006. Plans are in hand for a third commission devoted to faith and Church leaders, profiling significant Christian, Jewish, Muslim, Sikh and Hindu figures.

Photographs

As in previous years the majority of acquisitions came from contemporary and living photographers. Important collections of work were acquired from Harry Borden (studies of leading figures in the business world, shown in a display as *Borden on Business*) and from David Partner (black-and-white images of leading parliamentarians, shown as *Heads of Government*). Deloitte wholly supported these two acquisitions. Other groups acquired ranged from portraits of film actors and directors by Cornel Lucas to studies of contemporary Royal Academicians by James Hunkin.

Contemporary work was acquired from the following photographers: Richard Ansett, John Arnison, Theo Baines, Ed Barber, Jamie Beeden, Jason Bell, Gemma Booth, Venetia Dearden, Brian Griffin, Lorentz Gullachsen, Trevor Ray Hart, Jeremy Hilder, Sal Idriss, Terry Johnson, Peter Keen, Jill Kennington, Dan Kenyon, Brendan King, Sandra Lousada, Grace Lau, Trevor Leighton, Amit Lennon, Norman McBeath, Eamon McCabe, Alasdair McLellan, Lydia Maher, Palani Mohan, Steve Poole, Giles Price, Anne-Katrin Purkiss, Ray Reynolds, Derrick Santini, Kim Sayer, Pennie Smith, Paul Stuart and Stephen Wright.

Among their subjects were the actors Nathalie Press and Rachel Weisz, the artists Alan Davie, Alison Lapper and Stella Vine, cooks and restaurateurs including Alan Yau, Nigel Slater and Nigella Lawson, singers and musicians such as Bryn Terfel, Kate Bush and Coldplay and rappers Dizee Rascal and Kano, with a wide variety of achievers from many other walks of life such as John Sentamu, the new Archbishop of York, and John McCririck, the sports commentator.

Gifts of historic items included studies of the writer Keith Waterhouse by Terence Donovan and Sally Soames, a portfolio of five works by Francesco Scavullo, given by a charitable foundation set up in his name, and a large-format photograph of the nineteenth century four-times prime minister William Gladstone in Nice, given by John Hillesdon. We are also grateful for gifts from Alan Hughes and Margaret Gunst.

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

The Heinz Archive and Library

Several important acquisitions were made for the manuscripts collection. The de László Archive Trust generously gave the personal and studio papers of the society portrait painter Philip de László (1869–1937) and provided a complete set of digital copies of the correspondence. The Trust has agreed to index the papers and the collection should be available for research in 2007. A collection of 66 autograph letters addressed to the photographer William Walker (active 1860–1900), concerning sittings and other studio business, was purchased for the Archive.

The Heinz Archive's print collection was enriched by the purchase of William Dickinson's comic engraving *A Family Piece*, after Henry William Bunbury, and William Ward's mezzotint portrait of John Horne Tooke, engraved from the pastel by J.R. Smith, with which this image was acquired. Gifts to the Archive included a group of 30 portrait prints by Charles William Sherborn, generously donated by Tim Knox.

Conservation

The care of the Collection remains a very high priority. The forthcoming new display at Beningbrough Hall provided the opportunity to examine more than 50 paintings and sculptures in the conservation studio. Several paintings have received significant attention, including Sir Godfrey Kneller's unfinished Kit-cat portrait of Richard Boyle, Viscount Shannon, and Joseph Highmore's portrait of John Montagu, Earl of Sandwich, in Turkish costume.

The Frame Conservation team surveyed and carried out treatment on the collection of eighteenth-century frames from Beningbrough. The team completed the successful climate-buffering project for panel paintings at Montacute House, which involved adjustments to the picture frames. On a more contemporary note, work was undertaken on framing several new acquisitions and commissions, most notably Stuart Pearson Wright's portrait of J.K. Rowling. The frame conservation internship programme moved into its second year of support from the Pilgrim Trust, offering a young conservator a unique opportunity to study the Gallery's remarkable collection of frames and to benefit from the accumulated expertise of Gallery staff.

Funds have been raised to launch the first phase of an innovative research project looking at the Tudor and Jacobean collection. The project is planned to commence in 2007 and will use detailed technical analysis and conservation methods to explore early English painting techniques and the functions, meanings and possible authorship of portraits in this very special part of the Gallery's Collection.

(3) Increasing the Understanding of and Engagement with the Collection

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

Exhibitions

This year's programme has been particularly important for the Gallery, as a number of major and high-profile exhibitions were organised and strong collaborations with prominent bodies and institutions established in the lead-up to the 150th Anniversary. Exhibition entrance income increased by 24% compared to 2004/05.

Wolfson Gallery

Lee Miller: Portraits closed in May 2005, having attracted 63,000 visits. The exhibition 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 *BP Portrait Award* continues to grow in its twenty-sixth year and sixteenth year of BP sponsorship; its 188,000 visitors were the highest numbers ever. The winning portrait by Dean Marsh of Giulietta Coates was selected with 52 other works, from another record total of 1,114 entries. The *BP Travel Award* winner Darvish Fakhr showcased works derived from his travels in Iran.

The winter exhibition *SELF PORTRAIT Renaissance to Contemporary* brought both critical success for the Gallery and a productive collaboration with the Art Gallery of New South Wales, Sydney. Extending from the Wolfson Gallery into the ground-floor galleries, this was the first large-scale exhibition to bring together artists' self-portraits from across the tradition of Western painting. Encompassing works by artists ranging from Jan van Eyck to Jenny Saville, the exhibition gave its 64,000 visitors the opportunity to view portraits rarely seen outside the collections and cities in which they are permanently displayed.

Searching for Shakespeare followed in spring 2006 as part of the Gallery's 150th Anniversary celebrations. Focusing on the playwright's life and portraiture, the exhibition presented new technical analysis and research on the six 'contender' portraits, including the 'Chandos' portrait, casting new light on the search for Shakespeare's authentic likeness. Rare sixteenth- and seventeenth-century objects such as Shakespeare's will and Elizabethan costumes were brought together for the first time and incorporated in the exhibition. Although the visitor numbers of 28,000 were less than anticipated, there was extensive praise from the press, including coverage by several international newspapers and television stations, and exhibition visitors were exceptionally positive, with 86% in a MORI survey rating the exhibition as good value for money.

Porter Gallery

Conquering England: Ireland in Victorian London (a non-charging exhibition, with contributory 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. By its closure in June 2005, it had received 103,000 visits.

The World's Most Photographed brought together subjects ranging from historical figures such as Queen Victoria and Adolf Hitler to celebrities such as Elvis Presley and Marilyn Monroe, in an examination of how photography has been used since its invention in the pursuit of fame and power. A joint collaboration with the BBC, this extremely popular exhibition was complemented by a television series and book written by Robin Muir. Visitor numbers were 85,000 to this charging exhibition, 70% over-target.

The *Photographic Portrait Prize*, in its third and final year of sponsorship by Schweppes, received an outstanding 2,041 entries, with 58 photographs being selected for exhibition; Shara Henderson's entry of 'Girl with Baby' was awarded First Prize and the Deloitte Award for the best portrait taken by a photographer aged twenty-five or under was awarded to Karoline Hjorth for her portrait '0.7.55' from the series *In Your Face*. The 184,000 visits to this non-charging exhibition were 33% higher than 2004/05.

Icons and Idols: Commissioning Contemporary Portraits celebrated the Gallery's role over the past twenty-five years in commissioning portraits of celebrated individuals for the Collection. Featuring paintings, sculpture and photographs, the exhibition included subjects such as HRH The Prince of Wales, Marc Quinn's DNA portrait of Sir John Sulston, footballer David Beckham, and David Bailey's photograph of Diana, Princess of Wales. The 211,000 total visits were almost the highest ever for a non-charging exhibition.

Bookshop Gallery

Bloomsbury and Beyond displayed photographs of Lady Ottoline Morrell and her intimate snapshots of members of her artistic world, among them Dora Carrington, Lytton Strachey and Virginia Woolf.

To complement the major exhibition *SELF PORTRAIT Renaissance to Contemporary*, 15 self-portrait photographs were chosen for the display *A Question of Identity: Self-portrait Photographs 1855–2000*. They included portraits by Madame Yevonde, Brian Griffin and Tracey Emin.

As part of the Gallery's 150th Anniversary celebrations, *Commissioning Photographs 1917–70: The National Photographic Record* featured images from a remarkable collection of over 10,000 commissioned photographic portraits. Sitters ranged from Harold Wilson to Barbara Hepworth and Rupert Murdoch.

The 2006/07 programme of loan exhibitions contains some outstanding opportunities for the public to enjoy both historical or contemporary portraiture, including *David Hockney Portraits* and *Face of Fashion*, photographic portraits by five international fashion photographers.

The galleries and displays

A review has been carried out on the use of the Gallery's display spaces, with the result that greater emphasis will be given to a range of changing displays embracing visiting portraits, project rooms and interventions within the Collection, designed to enhance understanding of portraiture. As a step in this direction, in January 2006 one end of the Balcony Gallery was devoted to a major loan of Andy Warhol's *Ten Portraits of Jews of the Twentieth Century*, with an accompanying publication.

A special feature of the year has been the displays mounted to mark the Gallery's 150th Anniversary, headed by an illustrated time-line, *150 Years: The National Portrait Gallery 1856–2006*. This was supported by displays throughout the galleries, including *Sir George Scharf*, celebrating the Gallery's first Director, and *Born in 1856*, recording some of the diverse personalities whose birth year was that in which the Gallery was founded.

The programme of changing displays of works on paper is designed to show the strengths of the Gallery's collection of drawings, prints and photographs. On the top floor, *Nelson: Before and After Trafalgar* and *Gunpowder, Treason and Plot* celebrated the anniversary of two extraordinary moments in British history.

On the first floor, a centenary display in memory of the great actor-manager Sir Henry Irving included the loan of Sir John Everett Millais's portrait of him and was mounted with support from the Garrick Club. Another anniversary, *The Royal Ballet at 75*, featured a display of magnificent photographs from the Gallery's holdings. Various other showcase displays on the Victorian and early twentieth-century collections were mounted during the year.

On the Balcony Gallery screens, *Shooting Stars: Camera Portraits by Cornel Lucas* featured fifty of Lucas's finest film portraits. It was followed by another display drawn from the Gallery's collection, *Royal Court Theatre: A Celebration of Fifty Years*, which was curated by Axel Rüger, Curator of Dutch Paintings at the National Gallery and newly appointed director of the Van Gogh Museum, Amsterdam, as part of the Clore Fellowship Programme.

On the ground floor, the 'Africa 05' festival was marked by a loan display, *Cameroon – London: Portrait Photographs by Joseph Chila and Samuel Finlak*, featuring the work of two Cameroonian studio photographers following their residency, which was supported by the Calouste Gulbenkian Foundation. Other photographic displays included *Derry Moore Photographs*, showing existing and new photographs from all periods of his career. Deloitte also supported *Fergus Greer: Photographer in Focus*, celebrating a recent acquisition of work by this leading international photographer and *Defying Distance: Photographs by Adam Broomberg and Oliver Chanarin* celebrated the completion of the first Deloitte commission, devoted to key figures in the world of communications. At the end of the year under review, *'Most people are other people': Portraits of Actors by Stuart Pearson Wright* led to the acquisition of several fine drawings for the Collection.

Exhibition and display sponsorship

This was a successful year for exhibition sponsorship, with income increasing by 22% and a number of new supporters including the European law firm Taylor Wessing, sponsor of *The World's Most Photographed* (a first arts sponsorship for the company; it was awarded an Arts and Business New Partners grant of £8,900 which helped to extend the project to Taylor Wessing's staff and community partners), Channel Four, supporting *SELF PORTRAIT Renaissance to Contemporary* and Credit Suisse which, like the Gallery, was founded in 1856 and shared its 150th Anniversary by sponsoring *Searching for Shakespeare*.

The *BP Portrait Award* continued to go from strength to strength. BP's ongoing and invaluable commitment to portrait painting through the Award is held up as an example of how corporate sponsorship can have a major and positive impact on the country's arts scene.

Deloitte enjoyed a third year as the Gallery's Contemporary Photography Displays Partner. Deloitte's ongoing support of photography displays and activities in both the National Portrait Gallery and regional venues remains a ground-breaking arts partnership. The third year of the partnership has been the busiest and most successful in terms of events, photographic displays, acquisitions and commissions.

Interpretation

For most visitors, the front line of interpretation consists of Gallery labels and captions and we have spent some time this year reviewing the design and content of these for the Collection. The Gallery has experimented with providing additional information in the form of printed *In Focus* guides in the Tudor galleries. The text and images in these relate to contextual themes such as Religion, Costume, the Arts and the Tudor Court, and are intended to supplement the information available on the wall. MA students from City University have undertaken visitor research to see how this material is being used and, if the results are good, we will consider developing similar guides for other galleries.

The next batch of Picture Descriptions has been completed and these are now available, along with Braille and large-print guides, for the Tudor, Stuart, Regency and Early 20th Century galleries. More innovative interpretation for visually impaired visitors was developed to accompany *Fame!, a Reaching Out, Drawing In* exhibition in the Studio Gallery, which explored concepts of celebrity from the perspective of blind and partially sighted groups. A special audio guide and personal guides to offer assistance were created, as well as tours, tactile drawings and a tactile guideline, the first example of such a guiding technique being used in a gallery. Another Studio Gallery exhibition entitled *Look at Me* featured interpretation and artwork devised by young people, labels written by the participants, word searches and tactile panels, and drawing and writing activities.

Reading areas, *In Focus* guides, and audio and digital material were included in the *Shakespeare and Icons and Idols* exhibitions. *Icons and Idols* featured a space where visitors could browse the Portrait Explorer (see below) to access information on other works in the Collection and listen to taped interviews with sitters and artists about the commissioning process.

Plans to expand the role of and resources for interpretation are being considered as part of a Gallery-wide review of interpretation and displays. One of the most significant of these is the decision to appoint an Interpretation Editor to work with curators on developing additional forms of interpretation around temporary exhibitions and the collections.

Digital developments

Website

As noted under 1) Extending and broadening audiences above, the Gallery's site remains among the top three most visited art websites in the country. The Collection database accounts for most visits, now with 89,000 portraits (up 43% from 2004/05), 49,000 of which are illustrated (up 17% from 2004/05).

A time-line allowed visitors to explore the history of the Gallery over 150 years. The home page was refreshed to allow visitors more direct access to the most popular parts of the site. The online donation mechanism brought in support for both the Duchess of Cleveland and John Donne appeals and over 750 journalists registered to download publicity images for exhibitions. Subscribers to the e-newsletter increased to 26,000 (up 13%), while online memberships increased by 14%. E-commerce flourishes, with online sales from digital and hand-finished prints increasing by 17% and total e-commerce sales, including books and gifts, by 2%.

Preparatory work is complete to ensure that more information related to portraits can be accessed online: this will include acquisition information, Gallery publications in which any portrait from the Collection has appeared, stronger links to portraits on display at Regional Partnership sites and on loan, and a 'See Also' section to related portraits in the Collection.

The Gallery is one of a consortium of ten national museums and galleries that has been recently awarded £1.75 million from the Invest to Save fund managed by HM Treasury for an exciting project to develop and deliver new e-learning resources for schools and adult independent learners. It will involve providing a variety of online interpretative tasks and tools that will encourage users to engage further with the Collection.

The Portrait Explorer and exhibition interactives

Visitors can find out about 25,500 different sitters and artists in 50,000 portraits (up 19% from 2004/05) on the touchscreens in the IT Gallery. Tracking software indicated that 45,000 people with diverse interests are using the Portrait Explorer every year with two thirds of all sitters and artists being accessed during the three months trial tracking period.

A template was created allowing visitors to the IT Gallery to 'turn pages' on any photographic or print album or any sketchbook selected for treatment, to date one of twelve albums from the Ottoline Morrell collection. A new conservation feature on the Chandos Portrait in the *Searching for Shakespeare* exhibition explored its current condition and how it might have originally looked.

The Portrait Explorer currently in the IT Gallery, Weldon Galleries and at Bodelwyddan Castle, North Wales, will feature at the other two Regional Partnership venues, Beningbrough Hall, Yorkshire, and Montacute House, Somerset, by the summer of 2006. An innovative Virtual Portrait activity at Beningbrough Hall will allow visitors to sit for a virtual artist and see their face incorporated into a new portrait, which will appear on a screen on the wall amongst real portraits.

The IT Gallery is exploring new directions, using part of the space used for films linked to the main Wolfson Gallery exhibition. This was first trialled for the *SELF PORTRAIT Renaissance to Contemporary* exhibition and was repeated for *Searching for Shakespeare*.

Cataloguing, Digital images and the Portrait Printer

Digital images underpin all public access developments. During 2005/06 digital images were provided for 8,000 previously non-illustrated portraits, over 75% of the catalogued Archive Collection and 65% of the Photographs Collection. 1,041 prints and drawings were digitised, including a collection of Grillions Club portrait and a significant number of lithographs by R.J. Lane were scanned. 4,043 original photographs were digitized, focusing on the newly acquired Bloomsbury albums of Lady Ottoline Morrell as well as the 1860s carte de visite collection of Victorian notabilities collected by the National Portrait Gallery's first Director, Sir George Scharf. 18,000 portraits from Elliott & Fry and National Photographic Record databases were converted to the Gallery's MultiMimsy collections-management database.

The renewed Portrait Printer digital print service in the shop includes a new printer (sizes ranging from A4 to A2); a new touchscreen kiosk (improving presentation and providing more flexible search options); an easier service for sales assistants to manage; and lower prices. Consequently the number of sales has nearly doubled. The selection available to customers increased to 43,000 portraits (up 14% from 2004/05).

25% of the Archive Reference Collection and about 24% of the Photography Reference Collection can now be searched on-line via the Portrait Explorer and website. The Gallery has made a significant commitment of funds to continue its cataloguing and digitisation project, with the aim of having 50% or 160,000 of Reference Collection portraits available on-line by 2009.

Research programmes

This has been an outstanding year for the Gallery's research programmes. The key event of the year was the Gallery's success in being one of 8 organisations awarded 'academic analogue' status (i.e. recognition as equivalent to a university) by the Arts and Humanities Research Council. Being awarded analogue status is testimony to the strength of the Gallery's research programming in recent years and to its commitment to play its full role within the arts and humanities research community. It will make the Gallery eligible to apply across the range of the Council's grant programmes. And the Gallery welcomes the opportunity to assist the Council in shaping research in museums and galleries through closer partnerships with the higher education sector.

The Gallery has reaffirmed its commitment to an extended research programme as a way of increasing understanding both of its own collections and of portraiture more generally. Following the publication of *Mid-Georgian Portraits 1760–1790 in 2004*, the Gallery has begun two detailed catalogues of parts of its collection. Like *Mid-Georgian Portraits*, the first of these, on the *Later Stuarts*, is being written by John Ingamells, funded by the Paul Mellon Centre for Studies in British Art. The second, funded as part of a programme of research by the Getty Foundation with additional support from the Paul Mellon Centre, is on *Later Victorian Portraits*. With over 700 sitters to be included, this is the most ambitious of the Gallery's cataloguing programmes to date.

The Gallery has a strong tradition of facilitating the work of scholars from outside the institution. The Leverhulme Fellowship in the History of Portraiture enables it to support visiting Fellows to engage with the Gallery and its collections. Further funding for three years was awarded in November by the Leverhulme Trust and two Fellows have been appointed for next academic year. While the Leverhulme Fellowships are aimed primarily at established academics, the Gallery was also able to participate in the innovative Collaborative Doctoral Award scheme launched by the Arts and Humanities Research Council. In collaboration with King's College London the Gallery was enabled to establish a PhD studentship in connection with the forthcoming exhibition on eighteenth-century women intellectuals.

Publishing

This has been the publishing department's most productive year ever, with 12 different titles.

The year started on a high when the window of Waterstone's flagship Oxford Street store promoted the summer title *The World's Most Photographed* – a book that went on to sell over 10,000 copies. This success was followed in the autumn with *SELF PORTRAIT*, a scholarly investigation of the history of Western self-portraiture, and *Self-portraits*, a shorter introduction to the Gallery's own Collection. Both books proved attractive, with a collective pick-up rate of 7%.

Self-portraits forms part of a new series of general books under the title of Insights, which is aimed at encouraging appreciation of portraiture and biography, as well as interpreting the Gallery's displays. Based on the *Character Sketches* series, the books have been expanded to feature over 70 illustrations in an attractive hardback design, and it is hoped that at £9.99 they will be accessible to a wide range of book buyers. Current titles include *The Romantic Poets* by Richard Holmes, *The Bloomsbury Group* by Frances Spalding, *The Pre-Raphaelite Circle* by Jan Marsh and *Shakespeare and His Contemporaries* by Charles Nicholl.

To balance these historical studies, an ambitious new trade title, *The Portrait Now*, featuring 90 of the best contemporary portraits from across the world, was published and has attracted both serialisation and enthusiastic reviews. The book will add a useful context not only to the Contemporary Galleries but to our best-selling annuals for the *BP Portrait Award* and the *Photographic Portrait Prize*.

Internationally, the Gallery's publications have sold well at touring exhibition venues from Aberystwyth to Wolfsburg, and in three instances the department has been fortunate to secure co-publication with Yale University Press in America, which has ensured greater distribution for the Gallery's research.

Despite the ever-increasing costs of images, editorial and production fees, as well as fierce competition in the wider trade, our books continue to be competitively priced, from £7.50 to £35.

In 2006/07 the focus will be on promoting the catalogues for *Angus McBean Portraits*, *David Hockney Portraits and Face of Fashion*, and there will be a review of the general *Visitor's Guide*.

(4) Increasing and Developing Resources

Financial summary

The Gallery received a 4.6% increase in revenue Grant-in-Aid funding and £100,000 capital funding from the Department for Culture, Media and Sport in 2005/06. As the Gallery's Grant-in-Aid funding represents less than two thirds of total income (net of direct trading and fundraising costs and excluding income for building projects and donated acquisitions), self-generated income remains crucial to sustaining the breadth and quality of its activities. The Gallery's original target for total net self-generated income was over-achieved by 54% with the majority of individual targets also exceeded, replenishing reserves which enable the Gallery to fulfil its plans for further investment and growth. The target agreed with the Department for Culture, Media and Sport for the 2005-08 Funding Agreement, which comprises income from exhibitions, learning and access, venue hire, trading and catering franchise, net of venue hire and trading direct costs, was over-achieved by 9% (see page 27).

Voluntary income

The Portrait Gala

To launch the 2006 150th Anniversary celebrations, the Gallery hosted a fundraising Portrait Gala in February, with Herbert Smith as the headline sponsor. This was the first time an event of this nature had been held across all floors of the Gallery, with 550 guests seated at dinner. Jane Asher was an excellent Chair of the Gala Committee and many of the Gallery's individual and corporate supporters bought tickets and tables. Guests were able to purchase one of the 150 Mystery Portrait Postcards generously contributed by artists and sitters featuring in the Gallery's Collection, as well as by a number of well-known individuals. During dinner guests were given the opportunity to buy Anniversary raffle tickets or make bids in the Silent Portrait Auction. The event raised around £300,000 (net of direct expenditure) towards developing the Collection.

Support from Individuals

The Patrons' group has continued to flourish, with 2 Life Patrons recruited, and its increasingly popular programme of events is now in its second year of support from AXA Art. Events have included a visit to the artist Jonathan Yeo's studio in Chelsea; Patrons' Preview tours of all major exhibitions throughout the year; a breakfast visit to the Royal Academy of Arts exhibition *China: The Three Emperors*; a behind-the-scenes tour of the Gallery's conservation studio; and a private view of 10 Downing Street, where some of the Gallery's portraits are on display. A series of Literary Lunches was inaugurated with a talk by the historian Lady Antonia Fraser, followed by lunch in the Portrait Restaurant. As part of their valuable financial assistance for the Gallery, the Patrons supported *Icons and Idols: Commissioning Contemporary Portraits* and were invited with other guests to a special reception to view the exhibition.

In September 2005 the Gallery launched a new level of support, Associates, positioned between Patronage and Membership. The response has been positive and many of those joining have been Members, who have upgraded, or donors to past appeals. We look forward to increasing this level of support as well as that of Patrons, in particular our Life Patrons, over the next year. The important contribution of Members is noted on page 5; a small number of special events for Members was introduced in 2005/06.

The overall increase to individual giving income was 61% compared to 2004/05.

Grant-giving bodies

Charitable trusts and foundations continue to provide a source of essential support; these are credited alongside the relevant activities in sections 1 to 3 above. The re-formed Board of the American Friends of the National Portrait Gallery (with 501 (c) (3) tax status for US taxpayers) made a number of grants during the year and continued to be very supportive through the President, David Alexander. Two Board meetings were held in New York, at which various plans were discussed in relation to exhibition tours to the USA over the next couple of years.

Income for acquisitions

The Gallery was grateful to receive an unrestricted bequest of £583,000 in 2005/06 from Mary Hyde, Viscountess Eccles, which has been designated for The Portrait Fund, in accordance with the Reserves Policy at page 22. Donations during the year for acquisitions included £50,000 from the National Heritage Memorial Fund for the Duchess of Cleveland portrait and three grants from The National Art Collection Fund for the portraits of Duchess of Cleveland, Ted Hughes and David Hare. The estimated value of donated objects was £422,000 (£124,000 in 2004/05).

Activities for generating funds

Corporate members and Venue Hire

New Corporate Members joining this year include Provident Financial, Société Générale, Deutsche Bank, BNP Paribas and Urenco. The 7% decrease in corporate membership during 2004/05 was reversed in 2005/06, with an impressive increase in a difficult climate for corporate fundraising of 47%. This year has also seen a very busy events programme, with a high take-up of evenings by Corporate Members, and Venue Hire income increasing overall by 9%.

Trading

Retail started the year strongly, with an overall increase in sales of 27% in the first three months, partly resulting from the success of the *Lee Miller* exhibition. The *Frida Kahlo: Portraits of an Icon* exhibition provided a splendid opportunity for merchandising. Over the summer months sales were depressed, particularly in July and August following the terrorist attacks and a general slump in retail, and ended the year 6% under target.

Mitigating the full impact of the downturn in sales, successful initiatives during the year included:

- installing new signage to encourage more visitors to try the Gallery shop – the average transaction value rose by 2% on the previous year;
- upgrading the Print on Demand kiosk in the main shop, giving a substantial improvement in quality and enabling the price of prints to be reduced;
- e-commerce continuing to perform ahead of target – procedures will be further refined to maximise this aspect of our business;
- introducing a structured staff training programme – the Gallery's retail topped a recent London museums Mystery Shopper scheme for customer service.

Work will be done in the coming year to integrate retail promotions with other marketing across the Gallery and to develop a new contemporary range of products using images from the extensive photographic archive, for marketing beyond the Gallery.

The Gallery's Picture Library and Agency achieved sales of more than 10% and 25% respectively above target, under difficult trading conditions within the industry generally. Website visitors are buying more prints online, adding 20% to our print sales figures for last year, and the department is fully engaged with the digital business world, with Internet licensing up by more than 30% on budget.

Commercial projects included David Starkey's *second Monarch* series, the new *Garfield* movie and a history of the world for a major Chinese broadcaster, enabling us to support a range of academic and educational work.

The Picture Library team provides help and support to colleagues within and beyond the Gallery, contributing to a range of seminars and consultations, as well as working in partnerships, such as the well-publicised *Icons of England* project. Copyright consultancy work on the forthcoming *Oxford's Portraits* project will be an interesting aspect of the team's work in 2006 and, following some delays, it is looking forward to the launch of the new integrated software, which will pave the way for a significant expansion of its public service and revenue-generating activities.

Catering franchise, Investment and Other income

Catering income increased by 42%, largely due to the renegotiation of the percentage of commission received by the Gallery from this franchised service and increased covers in the restaurant; there was improvement in the number of covers in the café in the second half of 2005/06, after a dip during summer 2005. Investment and other income increased by 39%, due to interest generated from The Portrait Fund, one-off recharges relating to Catering refurbishment and income earned from the Audio Guide subsequent to bringing this service in-house.

Staff

Staff resources were strengthened in IT, Development, Archive and Trading and some short-term appointments were made in connection with cataloguing, research and other curatorial projects. Most importantly, for the first time a comprehensive employee survey has been carried out seeking staff views on a range of issues: employees' engagement with the Gallery's aims, staff relations, pay and benefits, learning and career development and work/life balance. Overall, the survey was positive, with 81% of respondents recommending the Gallery as a place

to work. There were a number of areas where the Gallery will seek to improve its policies and procedures, including on communications, involvement in decision-making, performance management systems and career development; these will be addressed from 2006/07 through a working group with all departments represented. The Gallery will assess the success of this initiative by the degree to which the percentage of positive responses improves when the survey is repeated in 2008.

Including long-term sickness, absence rates improved from an average of 10 days in 2004/05 to 8 days in 2005/06; excluding long-term sickness, the rate in 2005/06 of 6 days was comparable to recent years but 1 day higher than 2004/05. The public sector average for 2005 including all absences was 10.3 days, according to the Chartered Institute of Personnel and Development 2005 annual survey report of Absence Management.

A revised staff training strategy and plan was put in place during 2005/06 and includes an overview of the analysis of training needs. The strategy reinforces the need to continue to improve efficiency and to create stronger links between Gallery objectives and the skills needed to deliver these, but also underlines the important motivational benefits that flow from a sense of personal development. The strategy acknowledges the Gallery's broader social responsibilities: to encourage interest in work and to share skills through programmes of work experience and volunteering opportunities.

The plan balances Gallery-wide, departmental and individual training needs and sets out how these will be achieved. The principal strands of the 2005/06 programme included equality awareness, customer care workshops and core management skills through an in-house programme of project management training.

2006/07 will principally be focused on management development, identifying suitable sector-specific, accredited and modular-type programmes. Alongside this we will be reviewing our performance management procedures to strengthen the link between corporate priorities and individual objectives and how we can improve career development opportunities.

The Gallery's Equality Action Plan was updated during 2005/06 to incorporate progress made since its introduction in 2003/04. A key development has been the implementation of a work experience policy that provides guidance to those involved in managing our volunteers, interns and secondary schools programmes. We are also participating in two schemes aimed at increasing awareness of the Gallery as an employer by providing work experience opportunities for disadvantaged, black and minority ethnic school students (Global Graduates) and offering an associate curatorial fellowship as part of the Inspire Scheme developed by Arts Council London.

The Gallery participated in 'Race For Opportunity's benchmarking survey' to measure its performance across all areas of activity (including employment) on race equality. Race for Opportunity is a national campaign focused on encouraging organisations to achieve measurable success with race equality by providing support and access to leading-edge good practice. We were pleased to feature in the campaign as one of the best newcomers and while the survey highlighted areas that the Gallery had done well in, such as policy, planning and recruitment, it also presents challenges in dealing with areas such as resources for equality initiatives and the need to find ways of working with ethnic minority business. We will benchmark ourselves using this survey again in 2007.

During 2005/06, the Gallery received valuable support from volunteers working in the following departments:

	Full-time equivalent
Curatorial	0.6
Publications	0.4
Learning & Access	1.0
Design	0.9
Archive & Library	3.0
Frame Studio	0.7

Premises

It has been possible during 2005/06 to make a number of modest but telling improvements to the appearance of the Gallery.

The clarity of the building's layout improved radically as a result of the 2000 development and visitors' way-finding around the Gallery has now been further improved through the use of a bolder and more flexible signage system. This has been particularly important at a time when the Gallery is coping with a record number of visitors coming through the doors.

Since 2003, when a full access audit was carried out, the Gallery has introduced a number of small but real improvements to accessibility. In 2005/06 automatic door openers were introduced to the entrances used by

visitors with mobility difficulties and, after negotiations with English Heritage, the handrails to the main staircase were modified in order to improve safety.

While most efforts in recent years have been focused on the Gallery's interior, little has been done to enhance the exterior on St Martin's Place. The 150th Anniversary year was an appropriate occasion to tackle this. Lighting to the main entrance, in particular spotlighting the portrait busts of the three founders, Carlyle, Stanhope and Macaulay, new gold-leaf lettering over the front doors and to the Charing Cross Road façade and the introduction of a new signage system to advertise exhibitions and activities have all given a significant lift to the building's appearance.

A survey of the condition of the building's fabric was completed and the development of a plant and major equipment replacement strategy commenced. It was already clear that key items of plant would need to be replaced in the next few years and this awareness will inform current plans and provide the basis for a longer-term programme of refurbishment and renewal.

For the past year we have been in talks with Tate and two other museums about the possibility of sharing storage space at Tate's Southwark collections store and of developing with them a new collections care facility on the same site. The Gallery is currently undertaking an options appraisal looking at alternatives to the shared scheme with a view to making a firm decision about our involvement by Autumn 2006. Tate's programme envisages the funding and design stages being completed by 2007 with construction completed by 2010.

Records and information

The Heinz Archive and Library received 1,450 researchers in its public study room and responded to 1,830 telephone, letter and email enquiries concerning British portraiture (compared to 1,400 and 1,750 respectively in 2004/05). Organised visits and presentations were arranged for a group of young people from St Mungo's as part of a course run jointly with Westminster College, MA costume history students from the Courtauld Institute, librarians from the Art Libraries Society and a group of students from the Introduction to Visual Sources for Historians course at the Institute of Historical Research. The department participated in several external initiatives, including the British Cartoon Forum, the De László Catalogue Raisonné project, the University of Oxford digital catalogue of portraits project and the Ashmolean Museum's Sutherland Collection digitisation project.

The Gallery received 17 requests, mainly relating to the Collection, under the new Freedom of Information Act. Most of the requested information was contained in files that are already publicly accessible in the Archive and Library study room. Use of the shared network drive continued to increase and further improvements were made to the management of the Gallery's records. The Records Management Policy was revised, data protection training was provided to key staff and a detailed plan was drawn up for cataloguing the historic archive. However, implementation of the recommendations of the Records Survey, completed in 2004, was deferred in order to free up staff time to research and compile the illustrated time-line for the 150th Anniversary.

A project to catalogue the official and personal papers of the Gallery's first Director, Sir George Scharf, was prepared, pending suitable funding, for 2006/07. As part of future plans for delivering electronic access to archive and library collections, work began on rationalising existing databases and preparing a business case for an information management system.

Systems and services

Investment in the IT infrastructure has continued the five-year cycle of hardware and software renewal in order to maintain a properly supported system (focussing on printer renewal in 2005/06). Security, anti-virus and data storage procedures and methods have been upgraded. In-house database design has led to developments in areas as diverse as staff training and the Late Victorian period catalogue. A significant achievement has been the completion of a comprehensive in-house audit of how IT solutions can improve efficiency and extend the services the Gallery offers. The audit also looked at skill levels within the Gallery workforce. The findings are currently being translated into an action plan to be implemented over the next two years.

2005/06 represented the second year of a two-year review of the Gallery's internal governance. The review aimed to improve the transparency and efficiency of the Gallery's decision-making processes and the clarity of individuals' authority and responsibilities and to ensure that staff were aware of what they need to know and where to find that information. The review reinforced the Gallery's commitment to meeting statutory requirements such as the Freedom of Information Act.

As a result of the review, the following actions have been taken:

- terms of reference have been prepared for all decision-making committees in accordance with a standard model;
- a Planning Team, a sub-committee of the Senior Management Team, was created, which regularly reviews progress against the Business Plan, issues of risk and audit matters, as well as considering detailed points of the annual budget;
- an evaluation group was set up to oversee market research and to agree a performance management framework (to be implemented in 2006/07);
- an annual cycle of business was set up for Senior Management Team meetings (which achieved an average 12.5% reduction in the length of meetings as well as ensuring recurrent and comprehensive coverage of Business Plan priorities);
- a timetable for reviewing policies over a five-year cycle was drawn up;
- a standard format for policy documents was adopted and the policies for anti-fraud, security, IT and expenses (as part of the Gallery's financial regulations which are to be completed in 2006/07) were updated using this format;
- an internal communications policy was drafted, which is to be finalised in 2006/07.

The Gallery tendered the building maintenance contract during 2005/6 and reappointed the incumbent contractor, Sykes & Son Ltd on the basis of price and the quality of Sykes' previous work at the Gallery.

Effectiveness and efficiency

The gallery achieved the £276,000 2005/06 overall target agreed with the Department for Culture, Media and Sport for delivering cash and non-cash efficiency savings; this included a number of savings of time and costs (such as the Audio Guide and telephones) and improving organisational effectiveness (such as the time saved by spam-filters on e-mail and reducing the length of management meetings). The Gallery welcomes every opportunity to work with the Department for Culture, Media and Sport for the Comprehensive Spending Review 2007 in demonstrating the sector's effective use of taxpayers' monies in order to maximise future Grant-in-Aid settlements.

The Head of Finance and Planning represented smaller museums and galleries on the Department for Culture, Media and Sport Procurement Council, formed to address the recommendations from the 2005 National Audit Office report, *Procurement in the Culture, Media and Sport Sector*. The Gallery has drawn up its own action plan to improve its procurement practices and generate further savings, for implementation from 2006/07.

FINANCIAL REVIEW

Presentation

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

The Accounts are presented in accordance with the reporting requirements of the Statement of Recommended Practice (SORP, revised 2005), *Accounting and Reporting by Charities*. Prior year amounts for expenditure on charitable activities and governance costs in the Statement of Financial Activities and related notes are re-stated figures which accord with SORP 2005 disclosure requirements.

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 2006/07 and beyond. The Statement of Financial Activities apportions the cost of support services (directorates, personnel, finance, IT, utilities, maintenance, communications and office expenses) and depreciation across the various headings of cost of generating funds and charitable expenditure.

Financial Performance

In spite of the continuing difficulties in the economic and security climate and the terrorist attacks of July 2005, 2005/06 has been another sound year in terms of meeting internal financial targets as well as the performance targets agreed with the Department for Culture, Media and Sport. The success of the *World's Most Photographed* 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

The 4.6% increase in revenue Grant-in-Aid and £100,000 capital funding in 2005/06 combined with the increase in visitor numbers meant that Grant-in-Aid per visitor to St Martin's Place increased slightly from £4.16 per visitor in 2004/05 to £4.18 in 2005/06. Including regional partners (whose numbers decreased between 2004/05 and 2005/06) but excluding website visitors, this figure becomes £3.74 per visitor (£3.61 in 2004/05). The Grant-in-Aid per user 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 2005/06 was £0.71 compared to £0.98 in 2004/05. Consequently the Gallery continues to be outstandingly effective in terms of Grant-in-Aid per user.

As Grant-in-Aid represents only 59% of total income (net of trading and fundraising direct 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. Gross self-generated income represented 54% of total income, the first time ever (apart from during major building projects) that the Gallery has generated more than half of its gross income itself. Net self-generated income increased by 22% compared to 2004/05 comprising healthy increases in sponsorship, corporate memberships, venue hire, catering and the majority of fundraising income, including the Portrait Gala. However gross Trading income decreased by 7% and net trading income (excluding allocated support costs) decreased from £0.7 million to £0.4 million (Note 18). More detail is provided in (4) Increasing and Developing Resources from page 16.

Overall resources expended, which included the one-off costs of the Portrait Gala within costs of generating voluntary income, rose by 11% compared to 2004/05. 2% of this increase relates to staff costs, which increased by 14%, reflecting the strengthening of resources noted under 4) Increasing and Developing Resources (Staff) on page 21, significantly increased numbers of staff on fixed-term contracts working on funded projects and the use of agency staff on short-term contracts to cover vacant administrative posts where recruitment has been problematic, such as IT and Finance; as a proportion of total resources expended, staff costs increased from 48% to 50%. In addition to the costs associated with the Portrait Gala, other non-staff expenditure which increased from 2004/05 were exhibition costs, energy and water and National Programme. Increased exhibition expenditure related to the increased costs of the Worlds Most Photographed, a charging exhibition replacing a previous non-charging exhibition and *SELF PORTRAIT Renaissance to Contemporary* which attracted three times as many visitors as the equivalent exhibition in 2004/05. £158,000 of Strategic Commissioning funds towards the National Programme (see page 8) were received and expended in 2005/06 compared to £80,000 in 2004/05.

Balance Sheet

Unrestricted Funds

The brought forward Unrestricted Funds balance of £9.7 million was increased by £1.0 million during the year. The closing balance was £10.7 million of which £6.9 million represents the capital assets funded from self-generated income (which are therefore not available for spending) and £2.1 million has been designated for the Investment and Contingency Fund (see Reserves Policy on page 22) and for projects deferred to 2006/07. The £0.6 million legacy received in 2005/06 has been designated for the Portrait Fund, as noted under the Statement of Financial Activities on page 35. 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 £0.6 million agreed by Trustees within the Reserves Policy below.

Restricted Funds

The brought forward Restricted Funds balance of £45.3 million was increased by £2.4 million. The closing balance was £47.7 million of which £42.5 million represents the vested assets and the capital assets financed by the Development Appeal Fund and the Heritage Lottery Fund and £4.6 million represents donations for capitalised acquisitions (including the value of donated objects); neither of these amounts is therefore available for spending. The balance of £0.6 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 2006 was £39.8 million.

Performance against targets

An analysis of performance against the core targets agreed with the Department for Culture, Media and Sport under the Funding Agreement is set out on page 27.

Payment of Creditors

The Gallery follows the Treasury's guidance on payment of invoices. However in 2005/06, due to staff turnover, the Gallery paid approximately 60% of its invoices within 30 days of the invoice date, compared to 52% in 2004/05. Performance standards are to be used from 2006/07 to ensure improvement.

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 £38,000 in Charinco and COIF common investment funds (see Note 7).

During 2006, when the creation of The Portrait 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 (59% in 2005/06 and 66% in 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 enable the Gallery to manage its working capital, specifically the cash tied up in stock. The balance of £0.6 million in the General Reserve equates in total to three-quarters of the Gallery's average stock levels.

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.

£0.8 million of the £1.7 million balance as at 31 March 2006 has been allocated to specific projects for these purposes in 2006 to 2009. Of the £0.9 million balance remaining at least £0.3 million is held as contingency against unforeseen expenditure and short-term losses of income while £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. Any balance (up to £0.25 million per annum) allows the Director to take advantage of unexpected opportunities during the year. The fund is replenished with one-off unrestricted income (apart from legacies designated for The Portrait Fund as below) and with any annual surplus in excess of the balance maintained in the General Reserve.

The Deferred Projects Fund represents underspends generated in 2005/06, which are to be employed in specific projects; the full balance of £0.4 million is expected to be spent in 2006/07.

Trustees have also designated The Portrait Fund for acquisitions and development of the Collection. Whenever the Gallery receives unrestricted legacies, Trustees consider their designation for The Portrait Fund (every legacy to the Gallery goes towards developing and caring for the Collection for future generations).

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

Related Parties

The Gallery's sponsor, the Department for Culture, Media and Sport, is regarded as a related party. During the year, the Gallery has had various material transactions with the Department and with other entities for which the Department is regarded as the parent Department. 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 11, depreciation and other diminutions of value on fixed assets) and other non-cash costs such as provisions within an overall resource allocation from the Department for Culture, Media and Sport.

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

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

As capital charges are affected by the 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 had also agreed to cover from the Department's own funds until 2005/06 any increase in capital charges arising from the use of indices in the years between full professional revaluations on inalienable land and buildings, such as the main building of the Gallery. To date, there has been no guarantee of 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.

REMUNERATION REPORT

The Senior Staff Remuneration Committee advises the Trustees on the performance and remuneration of the Director. The Committee is chaired by the Chairman of the Trustees and is composed of the members of the Audit and Compliance Committee (see page 25). Once a year the Chairman leads a discussion on the Director's work, against the objectives agreed at the previous meeting of the Committee, in order to recommend to the Board the awarding of any performance related pay. The remuneration of other members of the Management Team is set out in their contracts and subject to the annual pay review framework for all staff. Trustees do not receive any remuneration.

Details of the Director's emoluments, pension entitlements and service contract can be found at Note 5 to the Accounts.



Sandy Nairne, Accounting Officer
13 July 2006



Professor David Canadine, Chairman of Trustees
13 July 2006

The Board of Trustees and Professional Advisers

Between 1 April 2005 and 13 July 2006, the date on which the accounts were signed, the Trustees were:

Ms Zeinab Badawi

Mr Nicholas Blake, QC (*from November 2005*)

Professor Robert Boucher, CBE, FREng

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

The Marchioness of Douro

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

Ms Flora Fraser

Professor Ludmilla Jordanova

Sir Christopher Ondaatje, CBE, OC #

Mr Tom Phillips, CBE, RA (*to March 2006*)

Mr David Ross (*from February 2006*)

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

Professor Sara Selwood *

Ms Alexandra Shulman, OBE

Sir John Weston, KCMG * #

ex officio

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

Lord President of the Council – The Rt Hon Baroness Amos

* 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.

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 2005/06. The audit fee in respect of this work was £19,600 (£24,000 in 2004/05, including £5,000 audit work charged in 2005/06).

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

Internal Auditors:

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



Sandy Nairne, Accounting Officer
13 July 2006



Professor David Canadine, Chairman of Trustees
13 July 2006

PERFORMANCE AGAINST 2005/06 FUNDING AGREEMENT TARGETS

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

Core target	Note	2000/01 Actual	2001/02 Actual	2002/03 Actual	2003/04 Actual	2004/05 Actual	2005/06 Actual	2005/06 Actual
Total number of visits to the Gallery excluding virtual visits (000s)	1	1,219	1,479	1,319	1,426	1,469	1,450	1,529
Number of unique users visiting the website (000)		662	1,121	1,374	2,578	4,543	6,250	7,300
Number of visits to the Gallery by adult UK visitors (aged 16 or over) from NS-SEC groups 5-8 (000s)	2				114	142	70	75
Number of visits to the Gallery by children aged 15 or under (000s)		62	52	66	71	93	75	81
Number of participations by children aged 15 and under in on- and off-site organised educational sessions (000s)	3				33	43	40	40
Net income from trading, including corporate hire (£000)	4						£1,550	£1,684
Efficiency savings (£000)	5						£276	£390

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

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

Note 3: Introduced in the 2003 to 2006 Funding Agreement

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

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

STATEMENT OF TRUSTEES' AND DIRECTOR'S RESPONSIBILITIES

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

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

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

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



Sandy Nairne, Accounting Officer
13 July 2006



Professor David Cannadine, Chairman of Trustees
13 July 2006

* 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 2005/06 and their mitigation 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 ensuring a high state of vigilance was maintained;
- continued uncertainty in the economic climate, with particular pressure on sponsorship and in the retail field; the Gallery is working hard to renew existing partnerships, find new sponsors, to grow connections through the Venue Hire and Events work, to seek longer-term partnerships and to use the 150th anniversary as a platform for the engagement of more supporters;
- staff recruitment and retention in areas such as finance and IT, mitigated by reviewing roles, processes and recruitment strategy;
- failure of high profile projects such as the 150th anniversary programme, mitigated by continued good planning; and that
- the Gallery's ambitions, nationally, internationally and digitally, may cause over-extension against limited capacity; more ordered procedures have been developed for risk assessment, better planning and the more effective use of its resources.

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

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 2005-2008 Funding Agreement with the Department for Culture, Media and Sport. In 2006/07 the Gallery will address a number of medium priority recommendations in an internal audit report on risk management issued in June 2006.

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

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

5. **Review of effectiveness**

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

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

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

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

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

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

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

We have been advised on the implications of the result of our review of the effectiveness of the system of internal control by the Board of Trustees, and a plan to address weaknesses and ensure continuous improvement of the system is in place. In order to ensure that the Gallery's corporate structure is most appropriately matched to its activities, the Trustees have agreed to the establishment of an incorporated subsidiary. The precise range of functions to be transferred to the subsidiary has yet to be finalised. Subject to the approval of the Department for Culture, Media and Sport and HM Treasury, it is planned that the subsidiary will commence operations later in 2006/07.

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 2006 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.



Sandy Nairne, Accounting Officer
13 July 2006



Professor David Canadine, Chairman of Trustees
13 July 2006

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

I certify that I have audited the financial statements of the National Portrait Gallery for the year ended 31 March 2006 under the Museums and Galleries Act 1992. These comprise the Statement of Financial Activities, the Income and Expenditure Account, the Balance Sheet, the Cashflow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

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

The Board of Trustees, and the Director, as Accounting Officer, are responsible for preparing the Trustees' Report, the Remuneration Report and the financial statements in accordance with the Museums and Galleries Act 1992 and directions made thereunder by the Secretary of State for Culture, Media, and Sport with the consent of the Treasury, and for ensuring the regularity of financial transactions funded by Parliamentary grant ("Grant in Aid"). These responsibilities are set out in the Statement of the Board of Trustees' and Director's Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Museums and Galleries Act 1992 and directions made thereunder by the Secretary of State for Culture, Media, and Sport, with the consent of the Treasury. I also report whether in all material respects the expenditure, income and resources funded by Grant in Aid have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report to you if, in my opinion, the Trustees' Report is not consistent with the financial statements, if the National Portrait Gallery has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the statement on pages 33 to 35 reflects the National Portrait Gallery's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Trustees' and Director's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the National Portrait Gallery's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Trustees' Report, and the unaudited part of the Remuneration Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Board of Trustees and the Director in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the National Portrait Gallery's circumstances, consistently applied and adequately disclosed.

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

Opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the Museums and Galleries Act 1992 and directions made thereunder by the Secretary of State for Culture, Media, and Sport with the consent of the Treasury, of the state of the National Portrait Gallery's affairs as at 31 March 2006 and of the incoming resources and application of resources for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Museums and Galleries Act 1992 and directions made thereunder by the Secretary of State for Culture, Media, and Sport with the consent of the Treasury; and
- in all material respects the expenditure, income and resources funded by Parliament have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Emphasis of matter – possible tax liability

Without qualifying my opinion, I draw attention to Note 19 to the financial statements. The Gallery has recently started discussions with HM Revenue & Customs on whether any of its activities to date have resulted in an existing tax liability as at the balance sheet date. It is not currently possible to confirm whether any liability exists, or to quantify any potential liability, and no provision has been made in the accounts.

I have no other 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

SUMMARY INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 MARCH 2006

	2006	2005
	£000	£000
Total income from continuing operations	13,878	12,047
Less: Operating expenditure	12,987	11,622
Total surplus for the year	891	425
Less: Net capital income	(126)	322
Operating surplus/on revenue income and expenditure	<u>765</u>	<u>747</u>

Net capital income represents income after depreciation charged in the year designated for capital projects. This includes £0.868 million of restricted income (£0.479 million in 2004/05) and £0.552 million of unrestricted income (£0.359 million in 2004/05), before total depreciation of £1.294 million (£1.160 million in 2004/05).

This information has been extracted from the full accounts which have been audited by the National Audit Office and represents incoming resources relating to the year excluding capital items (ie additions, disposals and depreciation)

The notes on pages 38 to 57 form part of these accounts.

STATEMENT OF FINANCIAL ACTIVITIES FOR THE YEAR ENDED 31 MARCH 2005

	Notes	Unrestricted Funds £000	Restricted Funds £000	Total 2006 £000	Total 2005 Restated £000
INCOMING RESOURCES					
Grant in Aid	2	6,285	141	6,426	6,108
Incoming resources from generated funds					
Voluntary Income					
Portrait Gala		–	499	499	–
Individual giving		234	–	234	152
Grants and donations		69	278	347	275
Donated acquisitions	1(e)	–	422	422	124
Donations for acquisitions		–	233	233	132
Donations for building projects		–	–	–	1
Lottery income		–	93	93	80
Income from NHMF		–	50	50	105
Legacies		583	–	583	473
Other fundraising income		30	–	30	18
Activities for generating funds					
Corporate members		141	–	141	96
Gallery hire income		346	–	346	315
Trading income	18	2,261	–	2,261	2,430
Catering franchise		227	–	227	160
Investment income	3	169	–	169	134
Incoming resources from charitable activities					
Exhibitions admissions and touring income		839	3	842	677
Exhibitions sponsorship income		820	–	820	671
Learning and access income		32	–	32	17
Other income		120	3	123	79
Total incoming resources		<u>12,156</u>	<u>1,722</u>	<u>13,878</u>	<u>12,047</u>
RESOURCES EXPENDED					
Costs of generating funds					
Costs of generating voluntary income	5	217	282	499	272
Non charitable trading expenditure	5	2,581	90	2,671	2,521
Total costs of generating funds		<u>2,798</u>	<u>372</u>	<u>3,170</u>	<u>2,793</u>
Net incoming resources available for charitable application		<u>9,358</u>	<u>1,350</u>	<u>10,708</u>	<u>9,254</u>
Resources expended on charitable activities					
Extending and broadening audiences	5	1,855	503	2,358	2,113
Developing the Collection	5	3,351	160	3,511	3,275
Increasing understanding and engagement with the Collection	5	3,094	744	3,838	3,354
Governance costs	5	99	11	110	87
Total Resources expended on charitable activities		<u>8,399</u>	<u>1,418</u>	<u>9,817</u>	<u>8,829</u>
Total Resources expended		<u>11,197</u>	<u>1,790</u>	<u>12,987</u>	<u>11,622</u>
Notional costs					
Cost of capital	1(l)	724	–	724	665
Net incoming/(outgoing) resources after notional costs		<u>235</u>	<u>(68)</u>	<u>167</u>	<u>(240)</u>
Reversal of notional costs		724	–	724	665
Net incoming/(outgoing) resources for the year before transfers		<u>959</u>	<u>(68)</u>	<u>891</u>	<u>425</u>
Transfers between funds	11	(281)	281	–	–
Net incoming resources for the year after transfers		<u>678</u>	<u>213</u>	<u>891</u>	<u>425</u>
Gains on investments	7	4	–	4	1
Indexations adjustments/revaluation	11	289	2,244	2,533	3,824
Net movement in funds		971	2,457	3,428	4,250
Fund balances brought forward at 1 April		9,728	45,254	54,982	50,732
Fund balances carried forward at 31st March		<u>10,699</u>	<u>47,711</u>	<u>58,410</u>	<u>54,982</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.

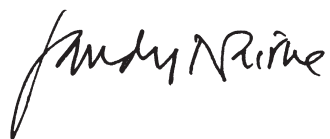
The notes on pages 38 to 57 form part of these accounts.

BALANCE SHEET AS AT 31 MARCH 2006

	Notes	£000	2006 £000	Restated 2005 £000
Fixed Assets				
Heritage Assets	6		4,627	3,578
Tangible assets	6		49,430	47,821
Investments	7		38	34
			<hr/> 54,095	<hr/> 51,433
Current Assets				
Stocks		736		803
Debtors and prepayments	9	1,019		622
Cash at bank and in hand	8	4,276		3,243
			<hr/> 6,031	<hr/> 4,668
Current Liabilities				
Creditors (amounts falling due within one year)	10	1,637		1,015
			<hr/> 4,394	<hr/> 3,653
Net Current Assets				
Long Term Liabilities				
Creditors (amounts falling due after one year)	10		79	104
			<hr/> 58,410	<hr/> 54,982
Net Assets				
Represented by:				
Restricted Funds	11		47,711	45,254
Unrestricted Funds				
Designated funds	11		10,099	8,850
General funds	11		600	878
			<hr/> 58,410	<hr/> 54,982
Total Funds				

2004/05 figures have been restated to disclose Heritage Assets and a Long Term Creditor as separate balance sheet items

The notes on pages 38 to 57 form part of these accounts.



Sandy Nairne
Accounting Officer
13 July 2006



Professor David Cannadine
Chairman of Trustees
13 July 2006

CASH FLOW STATEMENT AS AT 31 MARCH 2006

	Note	2006 £000	2005 £000
Net cash inflow from operating activities	17(a)	1,771	1,707
Capital expenditure and financial investment	17(b)	(907)	(747)
Management of liquid resources	17(b)	-	-
Return on investments and servicing of finance	17(b)	169	134
Increase in cash in the year		1,033	1,094

The notes on pages 38 to 57 form part of these accounts.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2006

1. ACCOUNTING POLICIES

a) *Basis of accounting*

The accounts have been prepared under the historic cost convention modified to include the revaluation of land and buildings, and the revaluation of listed investments to market value at the balance sheet date. The accounts comply with the Statement of Recommended Practice 2005, Accounting and Reporting by Charities, applicable accounting standards and the 2005/06 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.

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

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

c) *Expenditure*

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

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

d) *Fund accounting*

Unrestricted funds:

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

Restricted funds:

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

e) *Heritage Assets*

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

1. ACCOUNTING POLICIES (CONTINUED)

f) *Tangible fixed assets*

The Gallery capitalises the purchase of assets which cost more than £5,000 and IT hardware and software which have lives beyond the financial year in which they are bought.

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 after indexation; for assets under construction, depreciation is not charged until the year the asset has been completed. Prior to 2005/06 depreciation was calculated before indexation; in 2005/06 the method of depreciation was amended to reflect more closely the Government Financial Reporting Manual guidance such that depreciation is calculated after indexation. This increased the depreciation charge in 2005/06 by £57,000.

Indicative asset lives are as follows:

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

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

g) *Investments*

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

h) *Stock*

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

i) *Leases*

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

j) *Foreign currencies*

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

k) *Pension costs*

Past and present employees are covered by the provisions of the Principal Civil Service Pension Schemes (PCSPS). The defined benefit elements of the schemes are unfunded and are non-contributory except in respect of dependents' benefits. The 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.

1. ACCOUNTING POLICIES (CONTINUED)*l) Notional costs*

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

m) Governance costs

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

2. GRANT IN AID

	2006	2005
	£000	£000
Running costs	6,326	6,008
Capital costs	100	100
	6,426	6,108
Comprising: Request for resource 1	6,426	6,108

£6,385,000 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. In addition, £41,000 relating to a separate Grant-in-Aid resource for a staff secondment salary has been received. This has been disclosed as restricted income in the Statement of Financial Activities. £158,000 was received from DCMS/DfES for the funding of Strategic Commissioning projects, which has been included within Grants and donations.

3. INVESTMENT INCOME

	2006	2005
	£000	£000
Interest	167	132
Investment dividends	2	2
	169	134

4. NET INCOMING/(OUTGOING) RESOURCES BEFORE TRANSFERS

is stated after charging:

	2006	2005
	£000	£000
a) External auditors' remuneration	25	19
b) Internal auditors' remuneration	20	13
c) Operating lease rentals on land and buildings	45	56
d) Operating lease rental on fixtures & equipment	20	24
e) Cost of capital*	724	665
f) Depreciation	1,294	1,160

* This is also reversed

Auditors remuneration in 2005/06 included £5,000 work on the 2004/05 accounts. All auditors' remuneration was in respect of audit work.

4. NET INCOMING/(OUTGOING) RESOURCES BEFORE TRANSFERS (CONTINUED)

The incoming resources figure includes £25,000 of barter transactions. One transaction for £9,000 relates to the production of a book on Cornel Lucas to support a display of his work in return for accreditation in the display, and one transaction for £16,000 relates to provision of champagne in return for advertising the supplier at the Portrait Gala.

5. TOTAL RESOURCES EXPENDED

	Direct costs £000	Allocated support costs £000	2006 Total £000	2005 Restated Total £000
Costs of generating funds				
Costs of generating voluntary income	395	104	499	272
Non charitable trading expenditure	2,116	555	2,671	2,521
Total costs of generating funds	2,511	659	3,170	2,793
Extending and broadening audiences				
Publicity and information	870	49	919	907
National programme	300	39	339	162
Learning and access	617	483	1,100	1,044
	1,787	571	2,358	2,113
Developing the Collection				
Collection management	2,564	947	3,511	3,275
Increasing understanding and engagement with the Collection				
Research and documentation	806	509	1,315	1,131
Exhibitions and display	1,222	1,301	2,523	2,223
	2,028	1,810	3,838	3,354
Governance costs	80	30	110	87
Resources expended on Charitable activities	6,459	3,358	9,817	8,829
	8,970	4,017	12,987	11,622

2005 figures have been restated to account for the allocation of Management and Administration costs across charitable activities and for the separation of National Programme costs.

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

	Directorate & Office Services	Personnel	Finance & Planning	IT & Communi- cations	Facilities Manage- ment	Depreciation	Support Salary Costs	Total	2005 Restated
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Costs of generating voluntary income	9	7	2	13	14	12	47	104	92
Non charitable trading expenditure	30	29	18	52	124	115	187	555	597
Costs of generating funds	39	36	20	65	138	127	234	659	689
Publicity and information	4	3	2	5	10	7	18	49	54
National programme	4	2	2	5	5	3	18	39	40
Learning and access	12	11	6	20	175	189	70	483	464
Extending and broadening audiences	20	16	10	30	190	199	106	571	558
Collection management	6	78	4	8	168	186	497	947	925
Developing the Collection	6	78	4	8	168	186	497	947	925
Research and documentation	22	21	1	38	138	155	134	509	501
Exhibitions and display	14	13	7	23	549	613	82	1,301	1,295
Increasing understanding and engagement with the Collection	36	34	8	61	687	768	216	1,810	1,796
Governance costs	2	-	1	-	13	14	-	30	29
Total	103	164	43	164	1,196	1,294	1,053	4,017	3,997

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

Support costs have been allocated across activities as follows:

Directorate: equally across departments

Personnel, salary costs: per capita

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

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

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

GOVERNANCE COSTS

	2006	2005
	£000	£000
Breakdown of direct costs		
Trustees' expenses	2	2
Internal Audit	20	13
External Audit	25	19
Finance and Planning costs	33	24
	<u>80</u>	<u>58</u>

a) Staff costs

	2006	2005
	£000	£000
Staff costs during the year amounted to:		
Wages and salaries	5,306	4,731
National Insurance	376	341
Pension	775	551
	<u>6,457</u>	<u>5,623</u>
Of which salaries capitalised	49	66

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 2005/06, employers' contributions of £765,000 were payable to the PCSPS (2004/05 £541,000) at one of four rates in the range 16.2 to 24.6 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 have increased in 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.

5. TOTAL RESOURCES EXPENDED (CONTINUED)

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium and classic plus. Benefits in classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum (but members may give up (commute) some of their pension to provide 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 £10,240 (£8,800 in 2004/05) 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 £890 (£796 in 2004/05), 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 £60,000 in the year are as follows:

	2006	2005
£60,001–£70,000	1	1
£70,001–£80,000	–	–
£80,001–£90,000	–	–
£90,001–£100,000	–	1
£100,001–£110,000	1	–

These employees received no benefits-in-kind.

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

	Permanent staff	Temporary staff	2006 Number	2005 Restated Number
Costs of generating voluntary income	8	–	8	6
Non charitable trading	32	–	32	32
Extending and broadening audiences				
Publicity and information	3	–	3	3
National programme	3	–	3	3
Learning and access	10	2	12	9
Developing the Collection				
Collection management	74	11	85	81
Increasing understanding and engagement with the Collection				
Research and documentation	23	–	23	20
Exhibitions and display	13	1	14	14
Governance			–	–
Support	25	1	26	27
	191	15	206	195
Capitalised staff relating to the Digitisation project	2		2	

Prior year figures have been restated to reflect the allocation changes as required by SORP 2005 and a more robust method for calculating FTEs has been used.

As at 31 March 2006, 48 staff had season ticket loans outstanding worth a total of £35,595.

5. TOTAL RESOURCES EXPENDED (CONTINUED)

Director

The remuneration of the Director, Sandy Nairne, was £92,045 plus a non-consolidated bonus of £10,380 and employer's pension contributions £24,879. The Director's contract of employment is fixed for a period of seven years, effective from November 2002 with a 6 month notice period. The Director is eligible to receive ill health retirement benefits or early retirement benefits order Section 3 of the PCSPS but not to compensation order Section 10 of the PCSPS at the expiry of the appointment.

The Director's salary and pension entitlements as at 31 March 2006 were as follows:

	Salary including Bonus	Real increase in pension	Total accrued pension at age 60 at 31 March	CETV at 31 March 05	CETV at 31 March 06	Employee contributions transfer-in	Real increase in CETV after adjustment for and changes in market
	£000	£000	£000	£000	£000	£000	£000
2005	100-105	0-2.5	20-25	263	346	2.5-5	12
2004	95-100						

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.

b) Trustees

The Trustees neither received nor waived any emoluments during the year (also in 2004/05). Expenses reimbursed to or paid on behalf of one Trustee amounted to £118 (£366 in 2004/05).

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	Total tangible assets	Heritage assets £000	Total £000
Valuation/cost at 1 April 2005	38,488	9,934	1,854	50,276	3,578	53,854
Additions	143	39	189	371	1,049	1,420
Disposals	–	–	(9)	(9)	–	(9)
Indexation adjustment	2,490	94	2	2,586	–	2,586
Transfer of assets	–	–	–	–	–	–
Valuation/cost at 31 March 2006	41,121	10,067	2,036	53,224	4,627	57,851
Depreciation at 1 April 2005	593	389	1,473	2,455	–	2,455
Disposals	–	–	(9)	(9)	–	(9)
Depreciation	700	403	191	1,294	–	1,294
Indexation adjustment	48	4	2	54	–	54
Depreciation at 31 March 2006	1,341	796	1,657	3,794	–	3,794
Net book value at 31 March 2006	39,780	9,271	379	49,430	4,627	54,057
Net book value at 31 March 2005	37,895	9,545	381	47,821	3,578	51,399

The net book value at 31 March 2006 represents fixed assets for:

	Land & buildings £000	Plant & Machinery £000	Furniture & equipment £000	Heritage assets £000	Total £000
Charitable activities	35,884	8,363	342	4,627	49,216
Other activities	3,896	908	37	–	4,841
Total	39,780	9,271	379	4,627	54,057

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 Heritage Assets have been revalued during 2005/06 using indices published by the Valuation Office and the Office of National Statistics.

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

structural – 50 years, fit-out – 25-30 years and plant and machinery – 20-25 years. 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.

The net book value of land and buildings relates to:

	£000
Freehold	38,370
Long term lease (greater than 50 years)	1,410
Short term lease (less than 50 years)	–
	<u>39,780</u>

7. INVESTMENTS

Fixed asset investments

	Charinco £000	COIF £000	2006 £000	2005 £000
Market value at 1 April 2005	18	16	34	33
Net gain/(loss) on revaluation	–	4	4	1
Market value at 31 March 2006	<u>18</u>	<u>20</u>	38	<u>34</u>
Historical cost at 31 March 2006	<u>13</u>	<u>4</u>	17	<u>17</u>
Unrealised investment gains at 31 March 2006	<u>5</u>	<u>16</u>	21	<u>17</u>

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

	2006 £000	2005 £000
Investment assets in the UK	<u>38</u>	34
	38	<u>34</u>

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 59% of the Gallery's income (excluding income for buildings and net of trading and fundraising costs) is provided as Grant-in-Aid from the Department for Culture, Media and Sport. The remaining proportion is therefore generated via self-generated income, which is volatile. The risk is managed by the reserves policy for general funds which ensures that an amount equivalent in total to three-quarters of the Gallery's average stock levels is held in general funds.

Interest rate risk

The Gallery draws down its annual Grant-in-Aid allocation according to its monthly cash flow requirements; 99% 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. However, as only a small proportion of income (2005/06-£167,000) is generated from interest earned, the Gallery is not exposed to significant interest rate risk.

Interest rate profile

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

	Floating rate £000	Fixed rate £000	Non-interest bearing £000	Weighted average interest rate %	Weighted average period for which rate is fixed
At 31 March 2006					
Sterling Floating	4,171	-	-	4.24	
Fixed	-	-	-	-	1 month
US\$ Currency	84	-	-	1.48	
Euro Currency	7	-	-	-	
Other	-	-	52		
	4,262	-	52		
At 31 March 2005	£000	£000	£000		
Sterling Floating	3,062	-	-	4.21	
Fixed	-	-	-	-	1 month
US\$ Currency	169	-	-	0.03	
Euro Currency	2	-	-	-	
Other	-	-	44		
	3,233	-	44		

2004 has been restated to show £10,000 of cash floats as non-interest bearing.

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

Foreign currency risk

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

9. DEBTORS AND PREPAYMENTS

	2006	2005
	£000	£000
Trade debtors	703	400
Less provision for bad debts	(20)	(2)
	683	398
Other debtors	87	66
Prepayments	29	5
Accrued income	160	108
Tax recoverable	60	45
	1,019	622

There were no material balances with Whole of Government Accounts bodies as 31st March 2006.

10. CREDITORS AND ACCRUALS*a) Creditors falling due within one year*

	2006	2005
	£000	£000
Trade creditors	–	–
Other creditors	96	72
Taxation and social security	127	116
Accrued expenses	1,106	682
Deferred income	308	145
	1,637	1,015
of which creditors for capital expenditure:	101	10

b) Creditors falling due after one year

	2006	2005
	£000	£000
Deferred income	79	104
	79	104

There were no material balances with Whole of Government Accounts bodies as 31st March 2006.

c) Movement on deferred income

	Sponsorship	Membership	Venue Hire	Fundraising Event	Total
Balance as at 1 April	234	–	10	5	249
Amounts released from previous years	(130)	–	(10)	(5)	(145)
Incoming resources deferred in the current year	258	16	9	–	283
Balance as at 31 March	362	16	9	–	387

11. STATEMENT OF FUNDS

	Note	Balance at 1 April 2005 £000	Income £000	Expenses £000	Net gains/ losses £000	Transfers £000	Balance at 31 March 2006 £000
Unrestricted funds							
Designated funds:							
Collections Purchase Fund	12	9	-	-	-	35	44
Collections Designated Fund	12	-	281	-	-	(281)	-
Capital Projects Reserve Fund*	12	6,627	271	(280)	289	-	6,907
Investment & Contingency Fund	12	1,460	-	-	-	214	1,674
The Portrait Fund	12	474	-	-	-	613	1,087
Deferred Projects Fund	12	280	-	(247)	-	354	387
Total designated funds		8,850	552	(527)	289	935	10,099
General Funds (Working Capital)		878	11,604	(10,670)	4	(1,216)	600
Total unrestricted funds		9,728	12,156	(11,197)	293	(281)	10,699
Restricted funds							
Development Projects Fund	13	20,472	100	(687)	1,028	-	20,913
Capital Reserve Fund (Non-donated Assets)	13	10,325	-	(98)	366	-	10,593
Capital Reserve Fund (Donated Assets)	13	10,396	-	(229)	850	-	11,017
Capitalised Acquisitions Fund	13	3,579	594	-	-	454	4,627
Total Capital Reserve Funds*		44,772	694	(1,014)	2,244	454	47,150
Grants and Donations Fund	13	473	882	(683)	-	(116)	556
HLF/NHMF	13	-	143	(93)	-	(50)	-
Dame Helen Gardner Bequest	13	9	3	-	-	(7)	5
		482	1,028	(776)	-	(173)	561
Total restricted funds		45,254	1,722	(1,790)	2,244	281	47,711
Total Funds		54,982	13,878	(12,987)	2,537	-	58,410

* Capital Reserve Funds represent the net book value of tangible assets, including Collection acquisitions, purchased with unrestricted or restricted funds as well as the value of the main gallery vested with Trustees; these funds totalling £54.1 million are not available for spending.

12. DESIGNATED FUNDS

	£000	2006 £000	2005 £000
COLLECTIONS PURCHASE FUND			
Purchases during 2005/06 for the enhancement of the Primary collection which were funded by the Grant-in-Aid allocation amounted to £285,000 (£313,000 in 2004/05). Movements on the reserve were as follows:			
Balance at 1 April		9	17
Add: Grant-in-Aid allocation	305		305
Less: Acquisitions for Primary Collection	(270)		(313)
Transfers		35	–
Balance as at 31 March		44	9

COLLECTIONS DESIGNATED FUND

Balance as at 1 April		–	–
Purchases for the Primary and Photographs Collections during the year		281	324
Transfer to Capitalised Acquisitions Fund		(281)	(324)
Balance as at 31 March		–	–

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

CAPITAL PROJECTS RESERVE FUND

Balance as at 1 April		6,627	6,411
Income during the year designated by the Trustees		271	31
		6,898	6,442
Less: Depreciation for year		(280)	(297)
Add: Indexation adjustments/revaluation		289	482
Balance as at 31 March		6,907	6,627

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

INVESTMENT AND CONTINGENCY FUND

Balance as at 1 April		1,460	1,061
Transfers from: General Funds		214	399
Balance as at 31 March		1,674	1,460

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

THE PORTRAIT FUND

Balance as at 1 April		474	–
Transfers from General Funds		613	474
Balance as at 31 March		1,087	474

This fund represents funds designated for the development of the Collection (acquisitions and related costs such as conservation and displays, including 2005/06 unrestricted legacies). The fund was previously named The Portrait Acquisition Fund.

12. DESIGNATED FUNDS (CONTINUED)

	2006	2005
	£000	£000
DEFERRED PROJECTS FUND		
Balance as at 1 April	280	456
Expenditure during the year	(247)	(338)
Transfers from Retained Surpluses	354	162
Balance as at 31 March	<u>387</u>	<u>280</u>

This fund represents underspends generated in 2005/06 which are to be employed in projects during 2006/07.

13. RESTRICTED FUNDS**DEVELOPMENT PROJECTS FUND**

Balance as at 1 April	20,472	19,718
Add: Income for year	100	100
Less: Depreciation for year	(687)	(586)
Add: Indexation adjustments/revaluation	1,028	1,240
Balance as at 31 March	<u>20,913</u>	<u>20,472</u>

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

CAPITAL RESERVE FUND (NON-DONATED ASSETS)

Balance as at 1 April	10,325	9,105
Add: Income for year		
Less: Depreciation for year	(98)	(83)
Add: Indexation adjustments/revaluation	366	1,303
Balance as at 31 March	<u>10,593</u>	<u>10,325</u>

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

CAPITAL RESERVE FUND (DONATED ASSETS)

Balance as at 1 April	10,396	9,793
Add: Income for year	-	-
Less: Depreciation for year	(229)	(196)
Add: Indexation adjustments/revaluation	850	799
Balance as at 31 March	<u>11,017</u>	<u>10,396</u>

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

13. RESTRICTED FUNDS (continued)

	£000	2006 £000	2005 £000
CAPITALISED ACQUISITIONS FUND			
Balance as at 1 April		3,579	2,876
Funded acquisitions during the year		594	228
Transfers from:			
Collections Designated Fund	281		324
Grants and Donations	116		46
HLF / NHMF	50		105
Dame Helen Gardner Bequest	7		-
		454	
Balance as at 31 March		4,627	3,579

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

GRANTS AND DONATIONS FUND

Balance as at 1 April		473	413
Income during the year		882	944
Expenditure during the year		(683)	(838)
Transfers to:			
Capitalised Acquisitions Fund		(116)	(46)
Balance as at 31 March		556	473

This fund represents the balance remaining to be spent from donations given for a specified purpose. The fund was previously named "Sponsorship and Donations".

HERITAGE LOTTERY FUND/NATIONAL HERITAGE MEMORIAL FUND

Balance at 1 April		-	-
Income during the year		143	185
Expenditure during the year		(93)	(80)
Transfer to Capitalised Acquisitions Fund		(50)	(105)
Balance at 31 March		-	-

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

DAME HELEN GARDNER BEQUEST

Balance as at 1 April		9	6
Income during the year		3	3
Transfers to Capitalised Acquisitions Fund		(7)	-
Balance as at 31 March		5	9

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

14. ANALYSIS OF NET ASSETS BETWEEN FUNDS

Fund balances at 31 March 2006 are represented by:

	Unrestricted		Restricted	Total
	Designated	General		
	£000	£000	£000	£000
Fixed Assets	6,907	–	47,150	54,057
Investments	–	38	–	38
Current Assets	3,192	2,064	775	6,031
Current Liabilities	–	(1,502)	(135)	(1,637)
Long term Liabilities	–	–	(79)	(79)
Total Net Assets	10,099	600	47,711	58,410

Unrealised gains included above:

On investment assets	–	21	–	21
Total unrealised gains at 31 March 2006	–	21	–	21

15. FINANCIAL COMMITMENTS

As at 31 March 2006 the Gallery had annual commitments under non-cancellable operating leases as follows:

Operating leases which expire:	2006		2005	
	Plant and machinery £000	Other Operating Leases £000	Plant and machinery £000	Other Operating Leases £000
Two to five years	56	14	56	Restated 14

The figure for land and buildings represents the lease on the Merton store which expires in 2009. The figure for furniture and equipment relates to photocopiers which were not disclosed in the 2004/05 accounts.

16. CAPITAL COMMITMENTS

	2006 £000	2005 £000
Capital expenditure contracted for but not provided in the accounts	34	10
Capital expenditure authorised but not contracted for	402	–

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

	2006	2005
	£000	£000
Net (incoming)/outgoing resources/surplus before revaluations	891	425
less: Investment income	(169)	(134)
Donated acquisitions	(422)	(124)
Loss on disposal of fixed assets	-	1
Depreciation	1,294	1,160
(Increase)/Decrease in debtors	(397)	243
(Decrease)/Increase in creditors	368	105
(Decrease)/Increase in deferred income	138	114
(Increase)/Decrease in stocks	68	(83)
Net cash flow from operating activities	<u>1,771</u>	<u>1,707</u>

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

Payments to acquire tangible fixed assets	<u>(907)</u>	<u>(747)</u>
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Management of liquid resources

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

Return on investments and servicing of finance

Interest received	167	132
Investment dividends	2	2
	<u>169</u>	<u>134</u>

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

Increase in cash in period	1,033	1,094
Cash flow from change in liquid resources	-	-
Movement in net funds in the period	1,033	1,094
Net funds at 1 April	3,243	2,149
Net fund at 31 March	<u>4,276</u>	<u>3,243</u>

d) Analysis of net funds

	1 April 2005 £000	Cash flow £000	31 March 2006 £000
Cash at bank and in hand	3,243	1,033	4,276
Net funds	<u>3,243</u>	<u>1,033</u>	<u>4,276</u>

18. ANALYSIS OF ACTIVITIES FOR GENERATING FUNDS

	2006	2005
	£000	£000
<u>Retail, Publications and Picture Library</u>		
Turnover for the year	2,261	2,430
Less: Cost of goods sold	(1,010)	(768)
Less: Staff costs	(802)	(740)
Less: Direct overheads	(80)	(225)
	<u>369</u>	<u>697</u>
<u>Gallery hire</u>		
Turnover for the year	346	315
Less: Staff costs	(96)	(83)
Less: Direct overheads	(55)	(31)
	<u>195</u>	<u>201</u>
<u>Corporate members</u>		
Turnover for the year	141	96
Less: Staff costs	(22)	(21)
Less: Direct overheads	(50)	(56)
	<u>69</u>	<u>19</u>
<u>Catering franchise</u>		
Total franchise income for the year	227	160
	<u>227</u>	<u>160</u>
<u>Summary of activities for generating funds</u>		
Total turnover	2,975	3,001
Total cost of goods sold	(1,010)	(768)
Total staff costs	(920)	(844)
Total direct overheads	(185)	(312)
Total direct costs	(2,115)	(1,924)
Less allocated support costs	(555)	(597)
Net funds generated	<u>305</u>	<u>480</u>

19. CONTINGENT LIABILITIES

During the year, the Gallery reconsidered its corporate structure to ensure that it is most appropriately matched to its activities. In view of our success in increasing our income generation activities and the potential tax implications, the Trustees have agreed to the establishment of an incorporated subsidiary. The precise range of functions to be transferred to the subsidiary has yet to be finalised. Subject to the approval of DCMS and HM Treasury and discussions with HM Revenue and Customs, it is planned that the subsidiary will commence operations later in 2006/07. At the time that the accounts have been prepared, it is not possible to establish whether there is any tax due or, if due, the extent of any potential liability, as discussions with HM Revenue & Customs have only recently started.

20. POST BALANCE SHEET EVENTS

By 31st May 2006 the Gallery had succeeded in raising £1.4 million in order to purchase the pre-eminent portrait of the poet John Donne. The portrait will be purchased during the financial year 2006/07. There were no other significant 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:

	Amount purchased £000	Amount sold £000	Donations/ grants awarded £000
<u>Related Party</u>			
British Film Institute	-	-	-
British Library	4	-	-
British Museum	-	-	-
Imperial War Museum	2	2	-
National Gallery	131	-	-
National Heritage Memorial Fund	-	-	50
Tate Gallery	-	8	-
Victoria & Albert Museum	1	-	-
National Maritime Museum	-	2	-
National Museum of Science & Industry	-	-	-
Wallace Collection	-	-	-
Heritage Lottery Fund	-	-	93

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 £5,300 towards a fundraising event and £30,000 towards the purchase of a portrait of Roger Fry. Sir Christopher also committed to donating £15,000 towards a portrait of David Hare which was purchased during the year; this donation was received in April 2006. Flora Fraser paid £3,500 for a table at the 150th Anniversary Gala and donated it to the Gallery. Professor Ludmilla Jordanova signed a contract to be paid £850 for her essay for the *SELF PORTRAIT: Renaissance to the Contemporary* catalogue. Sir John Weston received £36 from sales through the Gallery shop of his collection of poetry '*Chasing the Hoopoe*'.



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