

# National Portrait Gallery Annual Report and Accounts 2011-2012

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# National Portrait Gallery Annual Report and Accounts 2011-2012

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

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# TRUSTEES' AND ACCOUNTING OFFICER'S ANNUAL REPORT

## INTRODUCTION

The Trustees of the National Portrait Gallery have pleasure in submitting their Annual Report and Accounts for the year ended 31st March 2012. The Accounts have been prepared in a form directed by the Secretary of State for Culture, Olympics, 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 indicators agreed with the 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 This act superseded the Treasury Minute of 2 December 1856 by which the Gallery was originally established.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 2011.

### 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 regularly 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 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 11,300 portraits of the most famous people in British history. Of these more than 4,200 are paintings, sculptures and miniatures, approaching 60% of which are regularly displayed at the National Portrait Gallery or elsewhere. In addition, there are some 7,000 works on paper, shown on a rotating basis of about 300 items a year. Normally items not on display can readily be made available for viewing via the Collections Registrar. The Collection is also made widely available via the Portrait Explorer in the IT Gallery, by CD-Rom, on the internet (at [www.npg.org.uk](http://www.npg.org.uk)) and in Gallery and other publications.

The Gallery also holds reference collections of photographs and prints and drawings 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 and Library's Reference 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 Archive and Library also contains 35,000 books and manages the Gallery's Records and Collected Archives.

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). Partnerships have also been formed with museums and galleries in the North East and the South West of England, and there are ongoing loan and display arrangements with other galleries and 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 (including the Gallery's two *ex-officio* Trustees), appointed by the Prime Minister on the recommendation of the Secretary of State for Culture, Olympics, Media and Sport with oversight by the Commissioner for Public Appointments, meets quarterly. Trustees have responsibility for overseeing the Gallery's affairs, determining the policies and overall strategy for the organisation. Trustees are expected to provide critical commentary on the current activities of the Gallery and to determine its overall direction for the future. Outside Trustee meetings, 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 fundraising. There is a committee of the Board which covers audit and compliance. The Gallery also has a Development Council to support fundraising initiatives. In 2010, the Gallery formed an Investment Committee with a mix of trustees and independent members.

A list of Trustees during 2011/12 and up to the date on which the accounts were signed is at page 24. 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 CBE. The appointment of the Director is made by the Trustees and approved by the Prime Minister. The Director is responsible for the overall leadership of the Gallery, its programmes of activities, the soundness of its finances, business and financial planning and its external representation. The Director leads the Management Team, which carries responsibility for developing the work of the Gallery, and debating and deciding on particular initiatives within the policies set by the Board. The Management Team takes responsibility for evaluating current work and initiatives, as well as reviewing policies, and is supported by a Planning Team, which reviews the Strategic and Corporate Plans, the Corporate 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.

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

In January 2012 HRH the Duchess of Cambridge became Patron of the National Portrait Gallery. In spring 2012 discussions took place leading to the creation of an independent foundation trust, The

Portrait Trust, to work alongside the Gallery in promoting the public's learning through the medium of portraiture.

Details of the Gallery's external advisers are at pages 24 and 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 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 exhibitions in the Wolfson and Porter Galleries, and by retail sales associated with the exhibitions made through the Gallery's wholly owned trading subsidiary company. 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, as embodied in its combined Equality Scheme. The Gallery has a comprehensive policy and training programme aimed at securing the health, safety and welfare of its employees, (see pages 13 and 14).

Gallery employees are involved in the development of policies, strategic and corporate 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. Regular meetings between staff and management ('Whitley Council' meetings) provide a forum for discussion of staff issues. The Gallery continues to receive valuable support from volunteers, as detailed on page 14.

### **Objectives and Performance Indicators**

The Gallery has an interim Funding Agreement with the Department for Culture, Media and Sport which has operated during 2011/12. The Coalition Government is reviewing the Funding Agreements with all DCMS museums and galleries and until the new agreements are published, the interim Funding Agreement remains in force. This Agreement is very similar to the earlier 2008/2011 Funding Agreement and includes the same seventeen key performance indicators. These indicators relate to audience profile, learning and outreach, visitor satisfaction, income generation and regional engagement, with a further four chosen by the Gallery. Funding Agreement performance indicators are reviewed quarterly by Trustees and annually by DCMS. Reference is made to these indicators throughout the Annual Report with the Gallery's performance in 2011/12 (with comparators for previous years, where appropriate) detailed on pages 26 and 27.

The 2011 to 2014 Corporate Plan established six primary 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 through access and learning, a higher national and public profile, and effective communication;
- To develop the Collection, creating opportunities for acquisition and commission, while improving its care and conservation;
- To increase the understanding of and engagement with the Collection and the art of portraiture through outstanding research, exhibitions and displays, publishing, regional and digital programmes;

## Increasing and developing resources

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

## ACTIVITIES, PERFORMANCE AND PLANNED FUTURE DEVELOPMENTS

### 1) Extending and broadening audiences

#### Visitor numbers

Throughout the year the Gallery has continued to attract new audiences, through communications, the public programme, outreach activities and increased access to the Collection through our partnerships across the UK.

The Gallery attracted 2.05 million visits in 2011/12, a 16% increase in comparison to 2010/11. This was the best annual visitor figure in the Gallery's history and the first time we have received over two million visits. The BP Portrait Award in both 2010 and 2011 attracted, on average, over 3,000 visitors a day – in 2011 341,000 visitors saw the exhibition making it the most popular in the Gallery's history. *The Indian Portrait* was a great success receiving over 139,000 visitors, 82% over the expected visitor figure and *Glamour of the Gods* attracted over 87,000 visitors, 60% above target.

Research results indicate that the Gallery continues to attract new and diverse audiences, during 2011/12, 39% of visitors were first time attendees and 10% were from Black, Asian and minority ethnic (BAME) groups. Enjoyment and satisfaction levels remain high, with 97% rating their visit 'good' or 'excellent' 92% of visitors said that they would be likely to return in the future and 97% said that they would recommend a visit to the Gallery.

#### Marketing

The 'Take another look' marketing campaign, won a series of accolades including a silver award at the DBA Design Awards 2011. Thursday and Friday nights were re-launched as Late Shift in May 2010, the accompanying marketing campaign has encouraged a new, young audience. 74% of visitors were aware of the Late Shift brand in 2011, a 20% year on year increase.

#### Press

Campaigns for Gallery activities resulted in widespread media coverage. The *Making Art in Tudor Britain* project received exposure in the press. The *BP Portrait Award 2011* winners' ceremony was broadcast live from the Gallery for the first time on Channel 4 News. *Lucian Freud Portraits*, *The*

*Queen: Art & Image* tour and the announcement that the Duchess of Cambridge had become Gallery Patron all received international coverage.

### Late Night Opening

Thursday and Friday evening opening has been enhanced by sponsorship from FTI Consulting and the new *Late Shift* programme has placed the Gallery firmly on the map of evening cultural activities in London with a programme of talks, workshops, DJs sets and the Friday Evening Music Series.

The Gallery continued the successful programme of *Late Shift* events begun in 2010/11. Highlights included *Re-Animate*, curated by Martyn Ware in response to the *Road to 2012* exhibition and *Glamour Factory*, created in partnership with Contemporary Vintage and inspired by the *Glamour of the Gods* exhibition, which attracted over 4,500 people.

### Families and young people

Illustrators Tim Hopgood and Jason Chapman created characters for the *BP Portrait Award* family labels and trail in 2010 and 2011. This annual feature is now a high profile commission for children's illustrators and forms an important part of our family friendly provision each summer. A new visual identity for the family programme was created and has been introduced successfully across signage and materials. In the coming year, additional self-directed resources, interpretation and a staffed pick-up point for families will be introduced.

The Gallery's Youth Forum continues to play an active role in shaping the programme for young people and events have included visitor talks led by Forum members around the *Taylor Wessing Photographic Portrait Prize*. Year one of the three year Domino Effect NEET (Not in Education, Employment or Training) project funded by the Dorset Foundation worked with participants from Fairbridge and Kids Company. After a photographic course each participant created a workbook and portrait and seventeen of the young people completed an Arts Council Arts Award qualification.

### Schools and colleges

39,800 taught and self-directed learners used the Gallery during the period, with a further 1,708 taught off-site through outreach. The Learning team have continued to deliver high quality taught sessions including *Freud in Focus* talks and a Continuing Professional Development programme for teachers. The *BP Portrait Award Next Generation* project, part of the Gallery's Cultural Olympiad programme, featured summer schools for young people run by *BP Portrait Award* artists. Engagement through the *Next Generation* website continues, 250 portraits have been shared by young people through the Flickr Your Portraits gallery and the artists' films have received 12,685 views on YouTube.

### Adult Programme

A programme of events including an academic conference linked to the *First Actresses* exhibition and regular daytime talks and lectures, have been exceptionally well attended during the period. Audience development continues to inform aspects of our programme and practice. Working in partnership with external organisations and guest curators to produce programmes associated with *Chasing Mirrors* and LGBT (Lesbian, Gay, Bisexual and Transgender) histories have been successful in sustaining visitor diversity.

### Outside the Gallery

Targeted community and outreach work continues to be over-subscribed and has included working with diverse audiences such as basic skills groups, looked-after young people, hospital schools and deaf and visually impaired students. Undergraduates from University of East London have developed a series of documentary portraits on life in East London in the lead up to this summer. Each week they have worked with a different professional photographer to develop their ideas and practice. This material will be published on the *Road to 2012* website.

## Participation projects

The final year of *Chasing Mirrors*, a three-year community project funded by John Lyon's Charity, attracted over 33,000 visitors. The displays explored the representation of self and were produced by Arabic speaking young people from West London in collaboration with lead artists Alinah Azadeh, a British-Iranian textile artist and British-Iraqi abstract painter Athier Mousawi. Linked programmes for schools in West London proved a very effective way of reaching new students and building a strong sense of community ownership.

## Interpretation

The Gallery's smartphone Apps were introduced in January 2011 and provision continued during 2011/12. Often repurposing material made for the Gallery audio guide these offer videos, trails, audio commentaries and information about the Collection with specialised versions in British Sign Language and Japanese. The *Lucian Freud Portraits* audio guide was also made available globally in this way.

## National programme

Total visits to the Gallery's national programmes activity attracted over 500,000 visits (not including visitors seeing Gallery long and short term loans).

*Explorers* was a region-wide exhibition in the North East created in partnership with Tyne & Wear Museums and Archives' Renaissance Programme. Over 100,000 visitors saw portraits at nine different museums and galleries across the region. For many of these museums it was the first time they had borrowed from a national collection. *Charles I: A Deadly Game* was shown at Segedunum Roman Fort, attracting 14,842 visitors and *Mary Queen of Scots: Fact & Fiction* was shown at Lyme Park attracting 103,057 visitors. *Athletes & Olympians* attracted 7,889 visitors at the Shipley Art Gallery and the venue played host to the launch for the Cultural Olympiad in the North East in January 2012 during this period.

An active programme of events for the Understanding British Portraits network saw participants from museums, galleries and country houses attending a range of seminars and workshops including private visits to musical and theatrical collections in London and a seminar on *Modern British Portraits* in Leeds.

Shared learning programmes, exhibitions and 'in focus' loans took place at all three of the Gallery's country house partners. At Beningbrough Hall *Rule Britannia: Frederick Prince of Wales and Music in the 18th Century* attracted 131,199 visitors and associated programmes focussed on links to musical themes within the property. *Imagined Lives: Mystery Portraits from the National Portrait Gallery 1540 - 1640* at Montacute House attracted 87,253 visitors and has since transferred successfully to the National Portrait Gallery. The exhibition interpretation involved a number of fictional biographies created by well known authors including Julian Fellowes, Tracy Chevalier and Terry Pratchett. The long term partnership with Bodelwyddan Castle included the production of a new family trail and upkeep work on the interactive galleries.

The Loans Programme has contributed to many exhibitions in the UK and abroad. The Gallery made 441 short-term loans to 78 venues and 656 long-term loans to 62 venues. For a list of touring exhibitions see [www.npg.org.uk](http://www.npg.org.uk).

## **2) Developing the Collection**

### Acquisitions

One of the most significant acquisitions of the past two years was a full-length portrait of Anne of Denmark, consort of James I, by John de Critz. Anne was an important patron of the theatre, literature and visual arts with her own court.

Key twentieth century and contemporary portraits purchased in this year include a powerful portrait of the playwright, theatre and TV director Mike Leigh by Stuart Pearson Wright, and an unusual portrait that was partly destroyed by the sitter, the painter Craigie Aitchison, which acts almost as an icon of artistic anxiety. Thomas Struth's magisterial photographic portrait of the Queen and the Duke of Edinburgh was a major addition to the Gallery's royal portraits. Other important 20<sup>th</sup> century acquisitions include Derek Hill's portrait of former Prime Minister Sir Edward Heath; and a remarkable portrait of the celebrated wartime spy, Odette, by Pietro Annigoni.

It has been a good period for photographic acquisitions, including photographs of Aldous Huxley and T.S. Eliot both by George Platt Lynes and Samuel Beckett by the French-Hungarian photographer Brassai (Gyula Halasz).

The Gallery also secured several important long term loans including portraits of Catherine of Aragon, Nell Gwyn and the entrepreneur and chemist Jessie Boot, founder of Boots the chemist.

### Commissions

A varied group of commissions have been completed. Julian Opie constructed a heroic portrait of the industrial designer Sir James Dyson. Gillian Wearing photographed the lawyer and human rights campaigner Shami Chakrabarti holding a wax mask: a reference to the sitter's self-proclaimed 'worthy' public persona.

In the run up to the Olympic year the Gallery has also commissioned over 120 photographic portraits of men and women who are both training for and working on the preparations for the London 2012 Olympic and Paralympic Games, by a range of internally renowned photographers as part of the project, *Road to 2012*, which is supported by BT.

### The Heinz Archive and Library

The Reference Collection benefited from a number of gifts, including by Kenneth Bowling who donated a satire 'The Coalition of the Bilboes' and Andrew Edmunds who gave an engraving of the Peterloo Massacre. A self-portrait etching by James McBey was given by Rupert Youle, and Christine Hayes donated material relating to artist Enid Stoddard. An Emmwood cartoon of Dr Charles Evans and Sir John Hunt was purchased with help from the Vicky Weisz Fund.

### The Photographs Collection

Lord Jonathan Hope donated an image of his grandfather Somerset Maugham by Carl Van Vechten. Mike Berkofsky donated a rare colour photograph of Jimi Hendrix. Other important gifts included three photographs by 1960s photographer Eric Swayne given by his son Tom Swayne. A portfolio of prints by master photographers of Jimmy Page was given by the subject, with further gifts by John Swannell included in a display: *Then and Now*. Purchases include a group of sixteen subjects from the 1960s by Peter Rand, and other significant groups were acquired from Sandra Lousada, Neil Libbert and Denis Waugh.

### Collections Care and Collections Management

The focus has been on the improvement of storage conditions both on and off site with a major project to plan and prepare the Collection for a move from existing off-site storage to the shared Tate Store at Southwark. Conservation condition surveys were undertaken to ensure safe transportation before the move. This project has made the Collection more accessible, allowed for expansion of the primary collection over the next 10 years and located works on one site as opposed to two.

Major conservation projects have included portraits of John Donne, Sir Joshua Reynolds, Colley Cibber and the *Three Witches from Macbeth*, which was fitted with a bespoke climate buffering system.

## Portrait Fund

The Gallery's Portrait Fund (the object of which is to assist the Gallery to acquire important portraits for the Collection and to cover the cost of related research, conservation, display and interpretation) has benefited from substantial support, which included previous generous donations from Viscountess Eccles, Lord Marcus Sieff and Sir Christopher Ondaatje, and a generous commitment from the Lerner Foundation. The Lerner Foundation gift was made over three years, the last tranche being received in January 2010, and has been used to build up the Portrait Fund and to enrich specific vital Gallery programmes.

The fund operates under its own trust deed; the three founding Trustees of the Portrait Fund were Professor Sir David Cannadine, Dame Amelia Chilcott Fawcett and Lady Douro, from the Gallery's own Board of Trustees. In 2006/07 Sir Christopher Ondaatje (a former Gallery Trustee) and Matthew Freud became Trustees of the Portrait Fund, and in 2010/11 Crispin Odey became a Trustee. During 2011/12 there have been a number of changes in the membership of the Portrait Fund with Dame Amelia Chilcott Fawcett and Matthew Freud standing down as Trustees, and Allegra Berman joining the Board of the Portrait Fund Trustees in place of Dame Amelia Chilcott Fawcett.

The Portrait Fund received a welcome increase from the sale of two special Mario Testino box sets containing some of his classic portraits in the year, which had been donated by the photographer for the benefit of the Gallery.

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

### **3) Increasing the Understanding of and Engagement with the Collection**

The diversity of the Gallery's programme continued to reflect our ambition to reach the widest possible audience and generate interest in portraiture both nationally and internationally. These ambitions have developed mindful of the changing economic climate and sustainability but with a desire to be innovative when appropriate. The range of displays, the depth of research, the increased digital activity, the ongoing cataloguing and the breadth of the publishing programme have showcased the Collection and added to our ambition to explore and promote portraiture. Exhibitions have highlighted a range of work from little-known photographers to key figures in British art and thematic and ground-breaking subjects.

The desire to increase our understanding of portraiture has brought new partnerships and strengthened existing ones, including working with Curatorial Assistance, Pasadena and the Modern Art Museum, Fort Worth all in relation to the exhibition programme. Partnerships online have included amongst others projects with the BBC and the Public Catalogue Foundation.

#### Exhibition Highlights

*Hoppé Portraits: Society, Studio and Street* and *Ida Kar: Bohemian Photographer* showcased the work of important but neglected photographers. *The First Actresses: Nell Gwyn to Sarah Siddons* focused on eighteenth century painting and was well received critically. The *BP Portrait Award* attracted over 300,000 visitors in 2011 and the *Taylor Wessing Photographic Portrait Prize* has continued to achieve high entry figures and an increased number of submissions from international photographers. *Lucian Freud Portraits* opened in February 2012 and has been widely and critically acclaimed, and is set to be the highest attended paying exhibition in the Gallery's history.

#### *Immunity from Seizure*

In response to concerns from museums that an increasing number of international lenders were refusing to lend items to UK museums without a guarantee of their safe return, legislation was created to protect these objects. The Tribunals, Courts and Enforcements Act 2007 includes provisions which give immunity from seizure for cultural objects which are loaned from overseas to temporary public

exhibitions in approved museums or galleries in the UK where conditions are met when the object enters the UK.

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

The National Portrait Gallery applied for approval under Section 136 of the Tribunals, Courts and Enforcement Act 2007 on 15 December 2008 and this was granted on 17 February 2009. The NPG provides information on its website for Immunity from Seizure: <http://www.npg.org.uk/about/foi/immunity-from-seizure.php>.

### The galleries and displays

Gallery displays are designed to show the strengths of the Gallery's collections and over the past year two anniversaries have been celebrated which included those related to Charles Dickens and Scott's Polar exploration. *Imagined Lives* transferred from one of our regional partnerships, the National Trust's Montacute House in Somerset, and featured portraits of unknown sitters. 20th century and contemporary displays included *Richard Hamilton: Portraits of the artist*. Photography displays included the work of Lewis Morley and Sandra Lousada.

### Digital programmes

New online search and filter developments have enhanced visitor access to 175,000 Collection records including nearly 100,000 illustrated portraits. Larger imagery is being introduced for academic licenses and the Gallery's presence on the BBC Your Paintings website. A social media-enabled microsite template was developed and has been utilised for the *BP Portrait Award Next Generation*, *Late Shift* and temporary exhibitions and a new Gallery blog will be launched in 2012. Improvements to the online shop and Membership facilities on the website have helped to attain record online sales figures.

Services for visitors and staff have been enhanced with a series of system improvements including a new web server and an augmented research, sort and display tool for Mimsy, the collections database. The *BP Portrait Award 2011* Visitor Choice interactive saw a record 28,000 visitors cast a vote for their favourite painting.

An in-house photographic studio is under construction and new camera equipment has enabled the Digital Programmes team to undertake Collection photography and develop time-lapse stills sequences and panoramic virtual tours.

### Research programmes

The period saw the publication on the website of the art and architecture tranche of the *Later Victorian Portraits Catalogue* consisting of 145 individual sitter entries including major figures such as William Morris, John Ruskin and James McNeill Whistler. The *Making Art in Tudor Britain* project was successful in gaining funding from the Esmée Fairbairn Trust, the British Academy and the Leverhulme Trust. This funding has supported technical analysis on fifty paintings, two new posts, collaboration with the University of Sussex and the Courtauld Institute of Art and two PhD studentships. The year also saw a significant strengthening of the research base at the Gallery with the appointment of Dr Ruth Brimacombe to the new post of Research Coordinator, the establishment of a register of staff research interests (which recorded that over 40 staff were research active) and two lively and varied series of research seminars.

The year has also been a productive one for individual members of staff, for further information visit [www.npg.org.uk/research](http://www.npg.org.uk/research).

## Cataloguing the Collection

The Archive & Library catalogued 1,275 items in 2011/12. 9,081 photographs and negatives were catalogued. From the twentieth century, work has begun on completing cataloguing of the Bassano studio half-plate negative collection covering 1925-1940, which had begun in 2010/11. Contemporary acquisitions cataloguing has included a further thousand items ranging from a collection of 1950s writers and artists by Rollie McKenna to over 500 items from the Patrick O'Connor bequest of his Music Hall collection and the 1950s Cambridge archive of Antony Barrington Brown.

## Publishing

The unprecedented success of the *Lucian Freud Portraits* exhibition catalogue and *Lucian Freud: Painting People* helped to bring Freud's portraiture to a wide public. International editions of these titles, plus *Hoppé Portraits*, have expanded our publishing partnerships worldwide. The *BP Portrait Award 500 Portraits* compendium was a best-seller, and *Imagined Lives*, written by eight high-profile authors, brought portraits from our Collection to new audiences. *Ida Kar: Bohemian Photographer* was nominated for a British Design and Production Award. *A Guide to Victorian & Edwardian Portraits*, published with the National Trust, added to our list of Collection-based titles. Our range of non-book products was extended to include new greetings cards and postcard books.

## **4) Increasing and Developing Resources**

### Financial summary

2011/12 has been a very successful year for the Gallery in terms of meeting internal financial targets and audience development objectives, as well as achieving good results across the range of performance indicators agreed with the Department for Culture, Media and Sport. The Gallery has nonetheless had to continue to adjust to the more difficult funding climate introduced with the 2010 Comprehensive Spending Review settlement. Achieving corporate sponsorship targets continued to be challenging and the Gallery had to accommodate a 2% cut in total grant-in-aid (resource and capital). Notwithstanding these funding constraints and the difficult economic climate, the Gallery had one of its most successful years in terms of visitor numbers, and with the success of the *Lucian Freud Portraits* exhibition, it was able to increase its free reserves by nearly £670,000, when it had originally budgeted to expend its free reserves in order to fund a deficit operational budget.

### Voluntary income

It has been a challenging, but nonetheless very successful year for the Development team in the current climate. A number of new sponsors have joined our long-term supporters, as indeed have new trusts, and our individual donors continue to enjoy their association with the Gallery, with the retention rate at all levels remaining high. There were increases in all classes of membership, although exhibition sponsorship struggled to achieve targets for the year.

#### *Individual Support (Patrons, Associates, Members)*

The support of Life Patrons and Patrons continues to be invaluable and they enjoyed a wide programme of events, including a very successful visit to Stockholm in May 2011, where they were joined by the Director and Deputy Director. The level of support from Associates was very steady throughout both years and a number of initiatives were undertaken to grow this level of support. Thanks to the popularity of the *Lucian Freud Portraits* exhibition membership increased from 6,300 to over 10,000, a record number of Members for the Gallery. Overall the retention rate of Members remains at 70%.

#### *Development Board and Board of American Friends*

The Development Board drew to a close in March 2011, and the Director and Pim Baxter and her team were extremely grateful for all the support of members of the Board over a ten year period. The new Development Council was in place by May 2011 and already proving invaluable towards helping

strengthen income generation for the Gallery. The Board of American Friends continues to be very supportive and a number of grants have been made to the Gallery over the period of this review.

### *Charitable Trusts and Foundations*

Charitable Trusts and Foundations continue to make a significant contribution to many aspects of the Gallery's work. Thanks to the Garfield Weston Foundation, the storage of works on paper and photographs will be transformed over the coming months. Both the John Ellerman Foundation and the Foyle Foundation have provided welcome support for the National Programmes team.

### Activities for generating funds

#### *Corporate Support*

The Gallery enjoyed the continued support of BP for the *Portrait Award* and the *Next Generation* as part of the Cultural Olympiad, and Taylor Wessing for the *Photographic Portrait Prize*. BT's support for the *Road to 2012* continued, with the second display of Olympic portraits in the summer of 2011. The Gallery launched *Late Shift* in 2010 with investment from FTI Consulting for Thursday and Friday evening events and activities. Previous sponsors Bank of America Merrill Lynch returned to support *Lucian Freud Portraits*.

The Gallery's corporate membership offer was restructured, resulting in several new members including PwC and UBS as Premier Partners.

The Gallery welcomed continued support from Herbert Smith for *Spring Season* and entered into a new partnership, *Signature Series* with J. P. Morgan in 2011.

#### *Venue Hire*

Venue Hire improved significantly in 2011/12 following a challenging year in 2010/11. A number of new clients booked events at the Gallery, including Swiss RE, Estee Lauder and Clifford Chance. New and existing Corporate Partners and Sponsors also held many events at the Gallery, including two successful events for UBS. Repeat private hire bookings were made by Unigestion, IBM, Mott MacDonald, Duncan Lawrie and Curzon Partnership.

#### *Trading company*

The Gallery's subsidiary trading company, the National Portrait Gallery Company Ltd, earned profits of £765,167, which it will Gift Aid to the Gallery. The Company's business includes retail, venue hire and the catering franchise. The profit earned in 2011/12 increased by 89% on that earned in the previous year, and was the highest the Company had achieved since it began trading in 2007. This was as a result of good performances in all business lines, assisted mainly by the highly successful *Lucian Freud Portraits* exhibition, which attracted record numbers of visitors for a paying exhibition. The Company was able to augment the income from its three primary business lines with income from other sources, and the Board of Directors will continue to develop these alternative lines in 2012/13.

#### *Retail and Publishing*

A partial refurbishment of the main shop and book shop and the re-launch of both our print on demand service and the online shop were the main business drivers in 2010/11. Difficult trading conditions on the high street were reflected in the Gallery's shops, except during particularly popular exhibitions such as the annual *BP Portrait Award*, *Thomas Lawrence*, *Glamour of the Gods* and *Lucian Freud Portraits*. The latter has been our most commercially successful exhibition, but the publications accompanying each of these exhibitions have contributed significant profits. The online shop exceeded sales of £100,000 for the first time in 2012 and ongoing reviews of our buying processes and stock management should continue to help increase customer spend, both in our shops and online.

### *Rights and Images (Picture Library)*

Following a review in 2009/10, the Rights & Images team streamlined operations, reduced costs and focused on revenue generation, delivering a real increase in sales despite a difficult and evolving market, and improving margins from 13% to 29% in 2010/11 and 33% in 2011/12. The team has developed improved access for academic and non-commercial use of images, and service to commercial clients through further streamlining, and by leading collaboration towards operational standards across the sector.

### *Catering franchise*

Catering income increased by 7% during the year. Increased visitor numbers helped improve the café's performance, especially during the summer and following the opening of the *Lucian Freud Portraits* exhibition. This was despite difficult trading conditions experienced in the run up to Christmas. The Portrait Restaurant's performance showed a strong second half to the year and continued to indicate that it is an attractive destination in itself as well as for visitors to the Gallery.

### *Investment and Other income*

Investment income derived from bank interest and dividend payments more than halved in the year compared to that earned in 2010/11. This was as a result of more of the Gallery's reserves being invested with the Gallery's investment managers, Partners Capital LLP, than had been the case in the previous year. The majority of the Gallery's reserves (approx £9.2 million) is invested in portfolios under management with Partners Capital LLP, and as such the Gallery is foregoing income earned from bank interest for gains on the investment portfolios under management. These investment portfolios had appreciated in value by £433,000, net of additional investments and management fees, compared to their values as at 31 March 2011. The appreciation is in the form of an unrealised gain, and during the year a further £1.1 million was transferred from interest earning bank accounts to the investment portfolios managed by Partners Capital. Notes to the accounts, (Notes 7 and 8), include information about the Gallery's investments. Other income decreased by 22% compared to 2010/11, albeit that the income in 2010/11 had been exceptional owing to a large recovery of overpaid VAT in that year.

### Effectiveness and efficiency

#### *Buildings and facilities*

The Gallery's more strategic approach to procurement followed Government policy promoting 'shared contracts' across the public sector. It collaborated with other museums on two common services: media buying and market research, to yield competitive rates and improved service delivery. The Gallery embarked recently on an innovative trial to share a 'Contracts and Procurement' team with the National Gallery - the first of its kind within the sector - and began reviewing opportunities for sharing the procurement of common commodities across both organisations. Reviews completed to date have resulted in cash and efficiency savings and improved contract terms for the Gallery. These spend reviews will continue to be a main focus for the Procurement team. The Gallery maintained its focus on 'sustainability' by continuing with its programme of LED lighting installation across its various galleries as a replacement for its conventional lighting.

#### Staff

The average number of staff sick days taken in 2011/12 fell to 5 days per member of staff (excluding staff on long term sick), from 6 days in 2010/11. Staff absence at the Gallery continues to remain below the average number of days sick absence for the public sector of 9.1 days, according to the Chartered Institute of Personnel and Development's 2011 Absence Management Survey.

#### *Training*

We continue to improve management capability across the Gallery with the sixth group of managers participating in our ILM accredited Management Development Programme and launched our Project

Management Framework and related training. Our trial mentoring scheme in collaboration with the Museum of London was completed and we are evaluating the impact of this. The Gallery has been recognised for its outstanding contribution to providing work experience to students from local schools with an award from the Westminster Education and Business Partnership.

### *Recruitment*

Despite the difficult economic climate, employee turnover during 2011/12 decreased to 10% in comparison to 13% in 2010/11. A number of factors contributed to this decline including funded posts coming to an end and a cycle of some senior posts turning over after a ten year tenure during 2010/11.

### *Diversity*

Almost all staff attended 'Celebrating the Difference' a one hour refresher training on diversity and equality conducted by members of our Equality Steering Group to update staff on new legislation, promote the Gallery's Equality Action Plan and celebrate the difference that has been made through a number of Gallery projects such as; the *Gay Icons* and *Chasing Mirrors* exhibitions and the Culture Quarter Programme.

We also continue to participate in the successful Culture Quarter Programme to provide six months work based training to young unemployed people, the Young Graduates in Museums and Galleries Programme providing 2 week internships to A level students. We have also organised the first of a number of paid internships '*Faith, Slavery and Identity*' for six months to promote and plan regional participation projects related to the recently loaned portrait of Ayuba Suleiman Diallo.

The composition of the Gallery's workforce is 89% white, 11% black and minority ethnic, 68% female, 32% male, 2.4% disabled and 35% part-time employees.

During 2011/12, the Gallery received valuable support from volunteers as follows:

	Full-time equivalent
Extending and broadening audiences:	0.6
Developing the Collection:	1.0
Increasing understanding and engagement with the Collection:	6.3
Trading:	0.3
Support:	0.2

### Improving our services

#### *Sustainability*

The Gallery's continued commitment to improving services has been demonstrated in a number of practical ways. Further energy saving initiatives, such as the installation of LED lighting across the majority of second floor galleries and the use of waste heat to produce the hot water used in public toilets, benefit staff, visitors and the Collection. So too have building projects, such as toilet refurbishments, relocating the cloakroom and replacing the flagpole on the roof of the building. The service to Members was enhanced by the introduction of scanning of Membership cards at exhibition entrances, and IT facilities for staff were made more resilient through a partnership with the Imperial War Museum.

#### *Visitor Services*

An Operational Review of Visitor Services looked at improving effective management of staff, the experience for the visitor and security enhancements. The success of this has been demonstrated by the ability of the Visitor Services team to deal pro-actively with the large number of visitors to *Lucian Freud Portraits*. Systems changes such as enhanced CCTV and the appointment of a new ticketing partner for *The Queen: Art and Image* have all been supported by the Visitor Services Team.

### *Services to research and readers*

The Heinz Archive and Library received 1,494 visitors and 2,381 enquiries in 2011/12 and continued to host visits from academic, professional and special interest groups. Use of the web-based archive and library catalogues has steadily increased from 1,000 to 1,200 hits a month over the two years from the beginning of 2010/11. Under the Freedom of Information Act 10 requests were handled during the period and 19 Parliamentary Questions were answered. The re-structuring of the shared drives used by staff across the Gallery began with a pilot project in 2010 and resumed in November 2011.

### *Records and information*

Cataloguing of the regularly accruing series of the Gallery's Records continued and, with the appointment of a new Archivist in November 2011, the Collected Archives were reviewed and cataloguing priorities agreed for the coming period. Retrospective cataloguing of the Library is proceeding well. The following sections were catalogued: Collections-British-Public, Art History-British, Portrait Collections and Costume; and work is ongoing with the NPG Exhibitions and Publications, Iconography, Biography and History sections. Library catalogue records continue to be added to the online National, Academic and Specialist Library Catalogue COPAC.

The National Portrait Gallery has suffered no protected personal data incidents in 2011/12 or prior years and has made no such report to the Information Commissioner's Office.

### *Governance*

Upholding the highest standards of governance through the accountability and transparency of management processes, decision-making and communications continues to be a key aim. Actions taken to strengthen governance included revised policies covering Expenses, Security, Loans, and Volunteers, Interns & work experience. The Board of Trustees undertook a review of their effectiveness at their Strategic Review Day in September 2011. The Gallery also recruited two additional independent members to sit on its Audit & Compliance Committee, and recruited a replacement non-executive director for the Trading Company, Alan Smith.

## **FINANCIAL REVIEW**

### **Presentation**

The Accounts have been prepared in a form directed by the Secretary of State for Culture, Olympics, 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*.

As required by the SORP, the Statement of Financial Activities shows total incoming resources for the year, including income received for capital expenditure and future projects occurring in 2011/12 and beyond. The Statement of Financial Activities apportions the cost of support services (directorate, 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**

2011/12 proved to be a record breaking year in terms of visitor numbers. This helped the Gallery to a strong financial performance during the year, which was underpinned by a very successful exhibition programme. *Lucian Freud Portraits* attracted very large numbers of visitors, and the results to date as at 31 March indicated that this could be the most popular paying exhibition the Gallery has ever held. *Glamour of the Gods* and the *BP Portrait Award* also attracted audiences well ahead of the targets set for them. As a consequence, the Gallery earned a surplus at the year end, when it had budgeted for

a deficit on its operations of over £300,000 – as noted in the 2011/14 Corporate Plan. The Gallery also achieved good results across the range of performance indicators agreed with the Department for Culture, Media and Sport.

### Statement of Financial Activities

During the year, the Gallery received £7,398,000 (£7,577,000 in 2010/11) in grant-in-aid from DCMS, a 2.4% decrease on the previous year. Grant-in-aid represented 44% of total income received in 2011/12, (53% in 2010/11).

Overall, total incoming resources were 17.5% higher than in 2010/11, with self-generated income being 40% higher. This was because 2011/12 was an exceptional year for visitors compared to 2010/11, with very strong performances from the *Lucian Freud* and *Glamour of the Gods* exhibitions in attracting admissions and retail income. Conversely, the *Thomas Lawrence* and *EO Hoppe* exhibitions held during 2010/11, although receiving critical acclaim did not have the same broad appeal and admissions and retail income associated with these exhibitions was correspondingly lower as a result. The 2010/11 exhibition programme also struggled to secure corporate sponsorship and the uncertain economic climate meant that certain exhibitions within the 2011/12 programme likewise did not attract the level of sponsorship planned.

Gross self-generated income represented 56% of total income, compared to 47% in 2010/11 – back up to the levels prior to 2010/11. Retail had a very good year compared to 2010/11, with sales 37% higher than in 2010/11 (see Note 2c). Nonetheless, the beginning of the year and during the autumn and the run up to Christmas, were challenging periods for Retail, and it was not until *Lucian Freud Portraits* opened in February that Retail achieved and eventually passed its budgeted income target for the year. Publications performed very well, increasing income by over 100% compared to 2010/11. Again this result was due largely to the sales of publications associated with the *Lucian Freud* exhibition. Despite the difficult economic climate, Venue Hire saw income rise compared to 2010/11, returning to levels close to those before the 2008/09 ‘credit crunch’. The Picture Library, however, saw income fall over the period, although a reduction in overhead costs during the year meant that the profit for the year was 13% higher than in 2010/11. Corporate membership income recovered strongly compared to previous years, being 44% above the figure for 2010/11 and 22% above the income earned in 2009/10. This positive performance was based on a strong exhibition programme, as the fragile economic climate continued to make attracting and retaining corporate members a challenge. Voluntary income was 22% higher than in 2010/11, largely as a result of an increase in Grants and Donations associated with major Gallery projects for the Olympic year, like the *Road to 2012*, and a number of grants received from several foundations to fund a programme of various smaller projects in the year.

The Gallery’s trading company had an exceptional year, posting profits before tax of £765,167 which were the highest it had achieved since it commenced trading in 2007.

Overall, resources expended increased by 2.8%, but below the prevailing inflation rate in the year. However, the increases were confined to trading, fundraising and exhibitions, all of which had experienced increased activity and therefore cost, mostly derived from the *Lucian Freud Portraits* exhibition. Certain other costs relating to research and Learning were higher than in 2010/11 as a result of the continuance of project work funded from reserves. The Gallery continued to examine its core cost base in order to maintain control of costs, in the light of the progressive contraction in funding from Government over the remaining life of this Parliament. Support costs rose by 4% compared to 2010/11, again owing to the additional expense generated in supporting the very successful exhibition programme, albeit that total Support salary costs for support staff fell by 4%.

Total staff costs as a proportion of total resources expended fell to 53%, compared to 54% in the previous year. The average cost per employee rose by 6%, although staff numbers fell by 2%. Much of the increase in total staff costs compared to 2010/11 was accounted for in severance payments made during the year, and increased overtime paid to Visitor Services staff and others involved in delivering the successful exhibition programme.

The table on pages 26 and 27 demonstrates that the Gallery performed well against the majority of performance indicators included as part of the Gallery's Funding Agreement with DCMS.

## Balance Sheet

### *Unrestricted Funds*

The brought forward Unrestricted Funds balance of £13.4 million decreased by £0.5 million during the year, as a result of a reduction in unrestricted fixed asset values relating to the Gallery's plant and machinery, and the Gallery expending its Deferred Projects Fund to fund ongoing projects. The closing balance was £12.9 million of which £8.7 million represents the capital assets – plant and machinery and furniture and equipment - funded from self-generated income (which are therefore not available to spend). £3.9 million has been designated for the Investment and Contingency Fund (see Reserves Policy below) and for projects deferred to 2012/13 (held in the Deferred Projects Fund). The General Fund remains at £250,000 in accordance with the Reserves Policy below. Going forward, it will be important for the Gallery to maintain a healthy unrestricted reserve to ensure it has sufficient funds to finance its key activities during what is likely to be a prolonged period where the public sector finances will be under continuing strain.

### *Restricted Funds*

The brought forward Restricted Funds balance of £56.1 million was increased by £4.6 million. The closing balance of £60.7 million consists of £26.4 million representing the Gallery's land and buildings, £15.2 million of revaluation gains on the Gallery's land and buildings, and £12 million representing the value of the Gallery's capitalised collections; none of these amounts is therefore available to spend. The balance of £7.1 million represents The Portrait Fund, together with funds donated and available for the restricted purposes of grant-funded projects to be completed and the acquisition of specified categories of portraits.

### *Fixed Assets*

The principal fixed assets represent the depreciated value of the St Martin's Place and the Orange Street buildings which were re-valued professionally at 31 March 2009. In accordance with Treasury guidance, the Gallery has adopted a policy of using appropriate indices to adjust the carrying values of its land and buildings, and Office for National Statistics indices to adjust the carrying values of its plant and machinery, in the years when they are not professionally re-valued. Other classes of assets have been valued on an historic cost accounting basis. The net book value of St Martin's Place and Orange Street, including fit-out, at 31 March 2012 was £41.6 million.

## Payment of Creditors

The Gallery follows the Treasury's guidance on payment of invoices. In 2011/12 the Gallery paid approximately 67% of its invoices within 30 days of the invoice date, compared to 71% in 2010/11. However, it paid 83% (87% in 2010/11) of the invoices within 30 days of receipt of the invoice, in accordance with its terms and conditions of purchase.

## Investment Policy

Investments are held in accordance with the Trustees Act 2000. A proportion of surplus cash is held on deposit with National Westminster Bank Plc. This provides daily access while earning interest, but also maintaining an adequate level of liquidity necessary for the payment of current liabilities. The Gallery also has a total of £37,000 in Charinco (managed by Black Rock Investments) and COIF (managed by CCLA), which are both common investment funds (see Note 8).

The majority of the Gallery's cash reserves are held in investment portfolios under management with the Gallery's investment advisors, Partners Capital LLP. In 2009/10 the Gallery established an Investment Committee with the purpose of preparing an investment strategy for the Gallery's and Portrait Fund's cash reserves. The Committee was chaired by Dame Amelia Chilcott Fawcett DBE for part of the year. When her term as a Gallery Trustee expired in June 2011, her role as Chair was

taken on by Allegra Berman in October 2011. The Committee includes Lord Janvrin, as the other Trustee representative. The Committee also includes three external members, Anthony Brooke, Jeremy Sillem and Ben Whitmore. The Committee's role is to monitor the funds invested by Partners Capital LLP and ensure that the funds are invested in compliance with the agreed Investment Strategy.

The Gallery and Portrait Fund's Investment Strategy is based on a consideration of the risk, return and cash flow requirements arising from each reserve fund. The strategy is implemented through investment in two portfolios managed by Partners Capital LLP. The market value of the Gallery's investment was £9.2 million, and of this, £6 million related to the Portrait Fund's restricted long and short term investments combined.

Investment levels and reserves are reviewed frequently and when necessary investments are sold to realise gains and make cash available. The investment objectives of each reserve, in terms of the general objective of its portfolio of funds and the performance objective of the portfolio, are as follows:

Fund	Portfolio objective	Performance objective
Portrait Fund Reserve	To assist the Gallery to acquire important portraits for the Collection and to cover the cost of related research, conservation, display and interpretation.	The chosen investment portfolio is designed by Partners Capital to target 3.7% per annum real returns.
Long term:	Long term total return, looking for modest capital appreciation. Investment timeframe of up to 5 years.	
Short term:	Preservation of capital the highest priority. Investment timeframe of 12 months.	
Investment and Contingency Fund Reserve	A designation of surpluses to be invested in projects in accordance with the reserves policy.  Preservation of capital the highest priority. Investment timeframe of up to 12 months.	The chosen investment portfolio is designed by Partners Capital to target 2.2% per annum real returns.

Fund performance is measured against agreed benchmarks, and an asset allocation profile is agreed for each fund. Portfolio rebalancing normally occurs at each Investment Committee meeting (usually three times a year), but may be taken on a more frequent basis where required in response to market conditions. There is no leverage (borrowing to invest) at the portfolio level. Funds may not invest in illiquid assets (defined as assets that cannot be liquidated for cash within 18 months under normal redemption terms).

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

During the year, the Portrait Fund portfolio earned a nominal return of 4.4% and the Investment and Contingency Fund portfolio earned a nominal return of 9%, over the same period, ignoring transfers into the Fund in the year. The Portrait Fund matched its benchmark in the period, but was short of its

real return performance objective. The Investment & Contingency Fund Reserve outperformed its benchmark significantly and was ahead of its real return performance objective. Given the turbulence in world financial markets during this year, owing to the Eurozone sovereign debt crisis, the Committee were satisfied with the performance of both portfolios in the year. The Investment Committee anticipates that given the current situation of weak economic growth and nominal interest rates below CPI inflation, it will continue to be a challenge to achieve the target real returns (i.e. net of the effects of inflation) in the short term. The Bank of England believes that UK inflation remains elevated currently and that the prospects for inflation are uncertain. Earlier in the year the Bank had expected inflation to have fallen further, and it considers that inflation is now likely to remain above the Monetary Policy Committee's target of 2% for the next year or so.

The Investment Committee took the view that the macroeconomic outlook for the next three years was not promising, with the dominant features being austerity, political uncertainty, volatility and low interest rates. The Eurozone sovereign debt crisis continued to be a significant cause for concern. In the light of this, the Committee and the investment advisors agreed an investment strategy in which the portfolios would remain underweight in equities, but would focus on credit which they believed would outperform equities in a sluggish growth environment.

### Reserves Policy

The Trustees perform an annual review of the Gallery's needs for reserves in line with the guidance issued by the Charity Commission. Around 50% of annual income is received as recurrent grant-in-aid from the government. The balance is derived from self-generated income which is mostly volatile and vulnerable to the prevailing economic climate. The Gallery has no general endowment and only a modest endowment for the support of the acquisition of major portraits (see below).

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 £250,000 in the General Reserve equates in total to at least three-quarters of the average stock levels in the accounts.

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

- enables the objectives of the Gallery's five year Strategic and three year Corporate Plans 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.

Approximately £0.6 million of the £3.6 million balance as at 31 March 2012 has been allocated and earmarked to specific projects for these purposes in 2012 to 2015. A further £0.55 million has been set aside for contingencies, consisting of £0.3 million held as contingency against unforeseen expenditure and short-term losses of income and £0.25 million 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 the previous financial year, which are to be employed in specific projects, usually in the current financial year; the full balance of £403,000 is expected to be spent in 2012/13.

Trustees have also designated The Portrait Fund for acquisitions and development of the Collection. Whenever the Gallery receives unrestricted legacies of £10,000 or more, Trustees consider their designation for The Portrait Fund (every legacy to the Gallery goes towards developing and caring for the Collection for future generations). Legacies under £10,000 will generally be spent on acquisitions, at the discretion of the Director.

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. More information on the Gallery's related party transactions is included in Note 23.

## **REMUNERATION REPORT**

The following sections provide details of the remuneration and pension interests of the Gallery's most senior management, consisting of the Director, Sandy Nairne CBE, and the two Deputy Directors, Pim Baxter - Director of Communications and Development - and Jacob Simon, Chief Curator. Jacob Simon retired in September.

### Service Contracts

Appointments of the Gallery's Director, Director of Communications and Chief Curator are made on merit and on the basis of fair and open competition.

The Director has a permanent contract of employment, effective from November 2009, with a six month notice period and its terms are agreed with the Department for Culture, Media and Sport. Prior to this, he was employed on a seven year fixed term contract of employment. The Director's contract is open-ended. Early termination, other than for misconduct, would result in the Director receiving compensation as set out in the Civil Service Compensation Scheme.

The two Deputy Directors hold appointments, which are also open-ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

The Trustees are appointed to serve for a period of four years with the possibility of renewal for a further period of four years at the end of that period. Their appointment is unremunerated, although Trustees may be reimbursed for expenses incurred on Gallery business.

### Audited Information

Remuneration paid to the Director and Deputy Directors during the year was as follows – figures in the table are audited information, (comparative figures for the previous year's salaries are shown in brackets):

Name	Salary £000	Bonus payments £000	Real increase in pension as at 31/3/11 and related lump sum £000	Total accrued pension at age 60 at 31/3/12 and related lump sum £000	CETV at 31/3/11 £000	CETV at 31/3/12 £000	Real increase in CETV £000
Sandy Nairne <i>Director</i>	110-115 (110-115)	Nil (Nil)	0-2.5 Plus lump sum of Nil	40-45	683	766	10
Pim Baxter <i>Deputy Director</i>	65-70 (70-75)	Nil (Nil)	0-2.5 Plus lump sum of 0-2.5	10-15 Plus lump sum of 35-40	255	281	4
Jacob Simon <i>Deputy Director</i> (until 30	35-40 [70-75 full year equivalent]	Nil (Nil)	Nil Plus lump sum of Nil	35-40 Plus lump sum of 105-110	757	752	Nil

September 2011)	(70-75)					
Band of highest paid director's total remuneration (£000)		110-115				
Median Total Remuneration (£)		21,745				
Ratio		5.2				

As from 2011/12, reporting bodies are required to disclose the relationship between the remuneration of the highest-paid director in their organisation and the median remuneration of the organisation's workforce. The banded remuneration of the highest-paid director in the Gallery in 2011/12 was £110-115,000 (2010/11, also £110-115,000), relating to the remuneration of the Director. The mid-point of this banding was 5.2 times the median remuneration of the workforce, which was £21,745. In 2011/12, no employees received remuneration in excess of the highest-paid director, (likewise for 2010/11). Total remuneration includes salary, non-consolidated performance-related pay, benefits-in-kind as well as severance payments. It does not include employer pension contributions and the cash equivalent transfer value of pensions.

The actuarial factors used to calculate CETVs were changed in 2011/12. The CETVs at 31/3/11 and 31/3/12 have both been calculated using the new factors, for consistency. The CETV at 31/3/11 therefore differs from the corresponding figure in last year's report which was calculated using the previous factors.

The monetary value of benefits in kind covers any benefits provided by the employer and treated by HMRC as a taxable emolument. None of the above mentioned senior staff received any benefits in kind in 2011/12 (none also in 2010/11).

The Trustees neither received nor waived any emoluments during the year (none in 2010/11). Expenses reimbursed or paid on behalf of one Trustee amounted to £427, all relating to travel and subsistence (in 2010/11, £359 for travel and subsistence of one Trustee).

### Salary

"Salary" includes gross salary; 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. Performance pay or bonuses paid, (Director's salary only), are disclosed separately.

The Remuneration Committee advises the Trustees on the performance and remuneration of the Director. The Committee is chaired by the Chairman of the Audit and Compliance Committee and is composed of the members of the Audit and Compliance Committee (see page 24) and the Chairman of the Trustees. Once a year the Chairman leads a discussion on the Director's work, against the objectives agreed at the previous meeting of the Committee, in order to recommend to the Board the awarding of any performance related pay. The Director's bonus can be up to 15% of his annual salary, subject to performance against the agreed objectives for that period. Up to 1.5% of the bonus can be consolidated, although this may vary in line with guidance issued by H M Treasury from time to time.

The remuneration of the Director, Sandy Nairne CBE, was £110,000, which was his contractually agreed annual salary. In the light of the strong results achieved by the Gallery during 2011/12, and in particular the success of the *Lucian Freud Portraits* exhibition, the Trustees awarded the Director a 10% bonus, 1.5% of which was to be consolidated into his pay. However, the Director waived the right to this bonus in recognition of the continuing public sector pay freeze that remained in force during the year. In 2010/11 the remuneration of the Director was £110,000, and in that year no bonus was awarded in recognition of the public sector pay freeze.

The remuneration of the Deputy Directors is set out in their contracts and subject to the annual pay review framework for all staff. Their salary does not include any performance related pay or bonuses. Pim Baxter's salary was lower in 2011/12 than in the previous year owing to the receipt of an element of substitution pay for covering the Head of Learning's post whilst she was on maternity leave in 2010/11.

## Pensions

Pension benefits are provided through the Civil Service Pension arrangements and the Director and Deputy Directors are members of the Principal Civil Service Pension scheme. From 30 July 2007, Directors and Gallery staff may be in one of four defined benefit schemes; either a 'final salary' scheme (classic, premium or classic plus); or a 'whole career' scheme (nuvos). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus and nuvos are increased annually in line with Pensions Increase legislation. Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium, classic plus and nuvos. Increases to employee contributions will apply from 1 April 2012. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits in respect of service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 calculated as in premium. In nuvos a member builds up a pension based on their pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. In all cases members may opt to give up (commute) pension for lump sum up to the limits set by the Finance Act 2004.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of three providers. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus and 65 for members of nuvos. Further details about the Civil Service pension arrangements can be found at the website <http://www.civilservice.gov.uk/pensions> .

## Cash Equivalent Transfer Values

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

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

Real increase in CETV

This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Reporting of Civil Service and other compensation schemes - exit packages

Following consultation between HM Treasury and Government Departments the Gallery must now provide summary data on its use of exit packages, in addition to any details it might have disclosed about the individual packages for those senior staff covered by the Remuneration Report. It must show the number of exit packages according to cost band, analysed by the number of compulsory redundancies and the number of other departures agreed. This information relating to exit packages agreed in 2011/12 - and the prior year - is provided in the table below, and is also audited information.

Exit package cost band	Number of Compulsory Redundancies		Number of other departures agreed		Total number of packages by cost band	
	2011/12	2010/11	2011/12	2010/11	2011/12	2010/11
<£10,000	-	-	4	1	4	1
£10,000 - 25,000	-	-	1	1	1	1
£25,000 - 40,000	-	-	2	-	2	-
<b>Total number of exit packages</b>	-	-	<b>7</b>	<b>2</b>	<b>7</b>	<b>2</b>
<b>Total cost in £</b>	-	-	<b>118,446</b>	<b>18,738</b>	<b>118,446</b>	<b>18,738</b>

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



Sandy Nairne CBE  
Accounting Officer  
28 June 2012



Professor Sir David Cannadine  
Chairman of Trustees  
28 June 2012

## THE BOARD OF TRUSTEES AND PROFESSIONAL ADVISERS

Between 1 April 2011 and 28 June 2012, the date on which the accounts were signed, the Trustees were:

Zeinab Badawi  
C. Allegra Berman ‡ (from 1 August 2011)  
Professor Dame Carol Black DBE  
Sir Nicholas Blake\*  
Dr Rosalind P Blakesley  
Professor Sir David Cannadine, FBA, FRSL (Chairman)  
Dr Augustus Casely-Hayford\*  
The Marchioness of Douro OBE  
Kim Evans OBE\*  
Dame Amelia Fawcett DBE ‡ # (until 19 June 2011)  
The Rt Hon The Lord Janvrin GCB GCVO QSO ‡ #  
Mary McCartney  
Sir William Proby Bt CBE DL (Deputy Chairman)  
David Ross \*  
Marina Warner CBE FBA

### *ex officio*

President of the Royal Academy of Arts – Christopher Le Brun (from 8 December 2011)  
President of the Royal Academy of Arts – Sir Nicholas Grimshaw CBE PRA (to 8 December 2011)

Lord President of the Council – The Rt Hon Nick Clegg MP

\* Audit and Compliance Committee members. The Chair of the Audit and Compliance Committee during the year was Mr David Ross. 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 June 2011). During the year Mr Neil Spence and Ms Jacqueline Riding were appointed as additional co-opted, independent members of the Committee to increase its knowledge of museum and gallery operations and public sector and charity finances. Both were appointed for two year terms, expiring in May 2013 and June 2013 respectively.

# Development Council members. The Development Council has recently been reformatted and does not have a Chair at present - members meet individually with the Director and Deputy Director throughout the year, rather than attending formal Board meetings.

‡ Investment Committee members. The Chair of the Investment Committee during the year was Dame Amelia Fawcett DBE until 19 June 2011 and then C. Allegra Berman from 18 October 2011.

## EXTERNAL ADVISERS

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

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

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

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

Michelmores LLP  
Woodwater House  
Pynes Hill  
Exeter  
Devon EX2 5WR

Under statute, the Comptroller & Auditor General is the auditor of the Gallery's accounts for the year 2011/12. The audit fee in respect of this work was £30,000 (£29,000 in 2010/11). Littlejohn LLP is the auditor for the National Portrait Gallery Company Limited and the audit fee in respect of their work was £8,700 (£8,470 in 2010/11).

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: Moore Stephens LLP  
150 Aldersgate Street  
London EC1A 4AB

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



Sandy Nairne CBE  
Accounting Officer  
28 June 2012



Professor Sir David Cannadine  
Chairman of Trustees  
28 June 2012

## PERFORMANCE AGAINST 2011/12 FUNDING AGREEMENT INDICATORS

The Gallery's interim Funding Agreement with the Department for Culture, Media & Sport contains 21 separate performance indicators. Seventeen of the indicators are stipulated by the Department, with a further 4 chosen by the Gallery. The table below includes the 17 indicators stipulated by DCMS, and 2 of the 4 chosen by the Gallery. (Of the remaining two indicators, one relates to attendance numbers at specific exhibitions and this is disclosed in the 'Extending and broadening audiences' section of the Trustees and Accounting Officer's Annual Report; the other is a more detailed indicator than that stipulated by DCMS and is disclosed in the table instead). Some of the indicators continue from previous Funding Agreements, and where this is the case, prior year comparators have been provided. These indicators are reviewed annually and revised where appropriate. Summarised performance is given below and further reference within the relevant context is made within the Annual Report.

Core target	Note	2005/06 Actual	2006/07 Actual	2007/08 Actual	2008/09 Actual	2009/10 Actual	2010/11 Actual	2011/12 Actual
Total number of visits to the Gallery excluding virtual visits (000s)	1	1,529	1,665	1,646	1,834	1,984	1,758	2,048
Number of unique users visiting the website (000s)		7,300	9,888	14,869	*15,546	12,205	13,725	14,624
Number of visits to the Gallery by children aged 15 or under (000s)		81	85	151	*173	157	118	134
Number of visits to the Gallery by adult UK visitors (aged 16 or over) from NS-SEC groups 5-8 (000s)	2	75	107	82	*114	189	125	170
Number of visits to the Gallery by adult UK visitors (aged 16 or over) from BAME background (000s)	3	61	83	165	*263	200	184	201
Number of visits to the Gallery by adult UK visitors (aged 16 or over) who consider themselves as disabled (000s)	3	-	-	66	*89	37	35	46
Number of overseas visits (000s)	3	398	500	560	680	712	612	821
Number of facilitated and self-directed visits to the Gallery by children aged 15 and under (000s)	3	-	-	38	*43	37	34	39
Number of instances of children aged 15 and under participating in on-site organised educational sessions (000s)	3	-	-	15	*4	4	5	3
Number of instances of children aged 15 and under participating in outreach activity outside the Gallery (000s)	4	-	-	4	*4	5	5	1
Number of instances of adults aged 16 and over participating in on-site organised activities (000s)	3	-	-	43	*35	32	43	55

Number of instances of adults aged 16 and over participating in outreach activities outside the Gallery (000s)	3	-	-	1	1.2	1	1	2
% of visitors who would recommend a visit	7	99	97	99	98	99	93	97
Profit from trading company (£000)	5	-	n/a	509	449	444	406	765
Income from Exhibition Admissions and touring (£000)	3	842	1,504	1,324	2,063	1,716	990	1,955
Income from fundraising (£000)	6	2,491	2,788	4,117	5,195	4,014	2,148	2,631
Total expenditure on exhibitions (£000)	3	1,124*	1,159*	1,114	1,336*	1,270	1,172	1,173
Number of UK loan venues	3	42	47	57	*108	165	133	118
Number of new acquisitions	3	93	81	200	32	57	324#	581#

\* Figures have been re-stated, to ensure that from 2008/09 onwards they are prepared on a consistent basis.

# Figures have been re-stated to provide a more accurate reflection of the number of individual acquisitions made in the year. In past years certain acquired collections were treated as a single acquisition, even though they were made up of a number of individual items.

*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 2008 to 2011 Funding Agreement.

*Note 4:* Introduced in the 2003 to 2006 Funding Agreement.

*Note 5:* Introduced in the 2008 to 2011 Funding Agreement (not applicable prior to 2007/08).

*Note 6:* Introduced in the 2008 to 2011 Funding Agreement and equates to Voluntary Income as expressed in the Statement of Financial Activities.

*Note 7:* Introduced in the 2008 to 2011 Funding Agreement and equates to visitors 'very likely' and 'fairly likely' to recommend a visit to the Gallery. (Statistic not available prior to 2006/07).

(It has not been possible in all cases to provide statistics for years prior to 2008/09 for the performance indicators introduced in the 2008/11 Funding Agreement. Where these statistics are readily available, they have been included).

## 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, Olympics, Media and Sport with the consent of the Treasury. The Accounts are prepared on an accruals basis and must 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 as set out in the *Government Financial Reporting Manual* have been followed, and disclose and explain any material departures in the financial statements; and
- prepare the financial statements on the going concern basis, 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 Accounting Officer for the National Portrait Gallery. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the National Portrait Gallery's assets, are set out in a Treasury Memorandum and the Treasury Handbook '*Regularity, Propriety and Value for Money*'.



Sandy Nairne CBE  
Accounting Officer  
28 June 2012



Professor Sir David Cannadine  
Chairman of Trustees  
28 June 2012

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

## GOVERNANCE STATEMENT

The Accounting Officer and the Chairman of Trustees (as representative of the Board of Trustees), have joint responsibility for maintaining a sound system of internal control that supports the achievement of the National Portrait Gallery's policies, aims and objectives, whilst safeguarding the public funds and Gallery assets. The purpose of the Governance Statement is to show how these responsibilities have been carried out in the course of the year.

### **The National Portrait Gallery's governance framework**

The National Portrait Gallery is a Non-Departmental Public Body supported by the Department for Culture, Media and Sport. A Board of sixteen trustees (including the Gallery's two ex-officio Trustees), appointed by the Prime Minister on the recommendation of the Secretary of State for Culture, Olympics, Media and Sport with oversight by the Commissioner for Public Appointments, meets quarterly. Trustees have responsibility for overseeing the Gallery's affairs, determining the policies and overall strategy for the organisation, as prepared by the Director and the Senior Management Team, and in ensuring that the Gallery fulfils its statutory obligations. Trustees are expected to provide critical commentary on the current activities of the Gallery and to determine its overall direction for the future. There is a committee of the Board which covers Audit and Compliance, and another which advises on senior staff remuneration. The Gallery also has a Development Council to support fundraising initiatives, and more recently the Gallery formed an Investment Committee with a mix of trustees and independent members to manage the investment of its cash reserves.

The Director of the Gallery is Sandy Nairne CBE, who is also the Accounting Officer. The appointment of the Director is made by the Trustees and approved by the Prime Minister. The Director is responsible for the overall leadership of the Gallery, its programmes of activities, the soundness of its finances, business and financial planning, its internal control and risk management processes and its external representation. As Accounting Officer, the Director is personally responsible, along with the Chairman of Trustees, for safeguarding the public funds and Gallery assets, in accordance with the responsibilities assigned to him in *Managing Public Money* and ensuring compliance with the requirements of the Gallery's Management Statement and Financial Memorandum.

The Audit and Compliance Committee is responsible for independent oversight of the Gallery's affairs. It receives reports annually from the internal and external auditors so that members of the Committee can assure themselves that the Gallery's affairs are managed economically, efficiently and within the powers delegated to it. The Committee also assesses and advises on the systems by which the Gallery manages and mitigates risk throughout the organisation. The Chair of the Committee advises in the event of any unexpected threat to the Gallery's resources, operations or reputation.

The Senior Staff Remuneration Committee advises the Trustees on the performance and remuneration of the Director. The Committee is chaired by the Chairman of the Audit and Compliance Committee, and is composed of the members of the Audit and Compliance Committee and the Chairman of Trustees.

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

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

While responsibility for financial oversight rests with the whole Board of Trustees, the Board invites one of its members to act as Finance Trustee and to report to the Board on budgetary matters and financial planning. This role focuses on the financial health of the Gallery, and is distinct from the work undertaken by the Audit and Compliance Committee.

A list of Trustees who served on the Board during 2011/12 and up to the date on which the accounts were signed is at page 24. There is a Register of Trustees' Interests, disclosing details of company directorships and other significant interests held by them, close family and persons living in the same household, which is open to the public, and can be accessed in The Heinz Archive and Library.

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

On average, over the year 2011/12, each Board meeting was attended by 93% of the Trustees, excluding the ex-officio Trustees. A significant majority of Trustees had a 100% attendance record and no Trustee attended fewer than 50% of the meetings in the period. For Audit and Compliance Committee, an average of 67% of the Committee membership attended each meeting. Attendance at meetings increased over the year with the appointment of two additional co-opted members. Again, no member of the Audit and Compliance Committee attended fewer than 50 % of the meetings. Attendance rates were high for the Investment Committee, which was attended by, on average, 93% of the membership. No member of the Investment Committee attended fewer than 67 % of the meetings in the year. Detailed attendance records for each Trustee attending main Board meetings and Board sub-committee meetings during 2011/12 are disclosed in the Appendix to the Governance Statement on pages 36 and 37.

The Director leads the Management Team, which carries responsibility for developing the work of the Gallery. The Management Team takes responsibility for evaluating current work and initiatives, as well as reviewing policies, and is supported by a Planning Team (consisting of Gallery Heads of Departments), which reviews the Strategic and Corporate Plans, the Corporate Risk Register and monitors budgets and financial matters. The Management Team meets fortnightly and also has an annual review day.

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

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

### **The Board of Trustees' performance in 2011/12**

The objectives for the Gallery in 2011/12 are laid out in the 2011/14 Corporate Plan, which can be viewed on the Gallery's website at <http://www.npg.org.uk/assets/files/pdf/corporate/busplan20112014.pdf>. The Board approves the Corporate Plan and the objectives outlined in it, and oversees the progress that the Director and the senior management team make in implementing the Plan, providing commentary and guidance on their work as necessary. Progress in delivering the objectives is reviewed twice a year by the Board, at the midyear point and at the year end. 2011/12 was a very successful year, with the Gallery attracting record numbers of visitors. It also produced better than expected results for the year. Good

progress had also been made in delivering the timetable of programmes and activities planned for the year. The Board also reviews a set of financial and non-financial performance indicators on a quarterly basis and these too showed that the Gallery had, overall, performed very well in most areas during the year. Pages 26 to 27 include a table of performance indicators comparing the results to those achieved in previous years: again, the performance in 2011/12 in most areas was at least as good as in previous years.

The Board has a governance review session every year, and every other year all trustees complete a detailed questionnaire to assess the Board's effectiveness. This session is undertaken at the Trustees' Strategic Review Day and consists of an overall review of the Board's effectiveness, and is followed up by a review by the Chairman of Trustees of the effectiveness of individual Trustees. The last Board full review took place in September 2011. At that time the Board considered that, overall, the Board had performed effectively. The Board considered that its terms of reference were well understood, that it had a good understanding of the Gallery's business, and that the Board had the right mix of skills and experience. It considered that meetings were effective and that Trustees were able to contribute adequately, although they would have preferred to make more time for discussions about strategy and programmes and activities.

### **Committee reports to the Board**

The minutes of the Audit & Compliance Committee and the Investment Committee are circulated to all Trustees and at each Board meeting the Chairs of the two committees brief the Board about the business which was discussed at the Committee meetings and the key outcomes arising. Each year, the Chair of the Audit and Compliance Committee submits an annual report on the effectiveness of the Gallery's risk management processes. As well as the annual report from the Chair of the Audit & Compliance Committee, the Accounting Officer and Board rely on assurances from several other sources, including the Annual Internal Audit Report to the Audit & Compliance Committee from the Head of Internal Audit (HIA), and Budget Holder, Budget Supervisor and Budget Manager end-of-year assurance statements. Together these reports and statements provide assurances confirming that a sound system of internal control has been maintained throughout the year. The Chair of the Audit and Compliance Committee's report details the actions which have been taken during the year to mitigate risk and to improve and strengthen internal control, during 2011/12 this included:

- *Governance & management effectiveness and reputation.*
  - Recruited an additional independent member of the Audit & Compliance Committee.
  - Recruited a new independent non-executive director for the Company.
  
- *To maximize the financial resources.*
  - Secured additional resource budget cover from DCMS to allow the Gallery to access its reserves to fund resource expenditure.
  - Secured funding from external foundations for improvements to the miniatures gallery and the Archive and Library and Special Collections Store.
  - Secured external funding for the Gallery's National Programme, following the cut in DCMS funding for this programme.
  - Considered contingencies in the event that DCMS made further cuts in the Gallery's grant-in-aid in later years.
  - Continued to monitor closely the actions of the investment advisors during a very turbulent period on the financial markets, following the Euro zone sovereign debt crisis – this risk is included in the Corporate Risk Register.
  
- *To bring the buildings, technical and managerial infrastructure of the Gallery to the highest standards.*
  - Secured agreement with Imperial War Museum (IWM) to host a Gallery server at the IWM to be used as part of the Gallery's Business Continuity Plan.
  - Shared drives project commenced to improve the storage of data on the Gallery's network.
  - Completed the Collections storage solution with Tate.
  - Commenced project to improve Archive and Library storage in the archive basement and Special Collections Store.

- Negotiations progressed with the National Gallery for an extension of the East Wing lease – new lease signed in April 2012.
  - New Employee Handbook published.
  - Loans Policy and Expenses Policy updated.
  - Revaluation reserve created for the Gallery's 2011/12 accounts, in accordance with charity accounting best practice.
  - Improvements to Gallery facilities undertaken in advance of the *Lucian Freud* exhibition – refurbishment of the Ondaatje Wing lavatories and the cloakroom moved to the basement. Locker facility provided in the new cloakroom.
  - Improvements to CCTV and installation of picture alarms to improve security.
  - Held briefings to ensure that the Gallery had adequate procedures in place in response to the Bribery Act 2010.
  - Improvements in procurement, payment and cash handling controls.
- *Major Projects – Road to 2012.*
    - *Road to 2012* and Olympic season issues included as a regular item at SMT meetings to improve planning and communication on progress with the project and the Gallery's response to the pressures arising from the Olympic Games.

The report also outlines the key risks facing the Gallery in the near future. These are highlighted in the risk assessment later in the Statement.

The HIA's report provided the Accounting Officer with reasonable assurance on the effectiveness of the Gallery's risk management, control and governance processes reviewed as part of the 2011/12 internal audit plan. The audit work consisted of seven audits, which included a review of exhibitions processes and execution, Health and Safety management, investment management, art handling and conservation, an audit of key financial controls and follow up audits covering procurement and the implementation of the Learning Strategy. In overall terms, there were five audits where a reasonable assurance rating was given and two where a limited assurance assessment was given. The two limited assurance ratings related to financial controls in the Finance and Conservation Departments, and by the time the HIA report was presented to A&CC, the majority of the recommendations from these two audits had been implemented. However, no significant weaknesses in internal control were identified by any of the audits undertaken in the year, and the Head of Internal Audit considered that the internal controls for the Gallery operate satisfactorily in most areas. Furthermore, follow up work undertaken by internal audit showed that progress has been made in implementing audit recommendations where they remained appropriate, and the HIA's report noted that the Gallery responded positively to recommendations made by internal audit and maintained a record of the progress made in the implementation of these recommendations. Progress with implementation of internal audit recommendations is reviewed by Planning Team and Audit and Compliance Committee at each meeting.

The regular reports from the Chair of the Investment Committee update the Board on performance of the Gallery's investment portfolios, and the effectiveness of the investment advisors managing the portfolios. The Investment Committee plays a significant role in the management of investment risk. Key to this is ensuring that the investment advisors adhere to the Investment Strategy. The Investment Strategy was prepared with assistance from the Investment Committee and was approved by the Board of Trustees. The Strategy determines the objectives of the Gallery's investment portfolios, taking into account the differing requirements with regard to risk and liquidity of the various reserves held by the Gallery. The Strategy also includes any restrictions the Trustees have stipulated in how the reserves are to be invested and how performance should be measured. Asset allocations proposed by the investment advisors are reviewed against the objectives of the Investment Strategy to ensure that what is proposed is acceptable. The reports from the Chair of the Investment Committee cover the performance of the investment portfolios during the quarter, the changes made to asset allocations and the consequences for the portfolios as a result in terms of risk. To date the Chair of the Investment Committee has reported to Trustees that the Committee was working well and that she believed that the independent members provided good advice and constructive challenge to the investment proposals put forward by the investment advisors. In the light of the difficult year for world financial markets, the Investment Committee had ensured that the investment advisors paid close attention to developments in the markets and responded quickly when action was needed. She

reported that risk in the portfolios had been reduced over the year, with a more conservative, defensive position taken and a general move to reduce exposure to equity markets and to minimise exposure to European sovereign debt. Nonetheless, the Committee has overseen reasonable returns on the portfolios over the year. Portrait Fund portfolio had risen by 3.4% in the first quarter of 2012 (to 31 March) and 4.4% over the year, excluding an additional investment of £76,000 in the Fund's portfolio in the first quarter of 2012. This performance matched the 60/40 benchmark for the year. The Investment & Contingency portfolio had increased in value by 9% over the year as a whole, (excluding an additional investment of £1 million into the portfolio during the year). This was well ahead of the benchmark (LIBOR). More detail about the performance of the investments is provided on pages 17 and 18, and the balances are disclosed in Note 8 to the accounts.

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

The Gallery seeks to uphold the highest standards of governance through the accountability and transparency of its management processes, decision-making and communications. Board of Trustee meeting minutes can be viewed on the Gallery's website at <http://www.npg.org.uk/about/corporate/trustees-and-trustees-meetings.php>. During the year the Gallery has sought to maintain the effectiveness of its corporate governance structures, in ensuring that the Board continues to have the right mix of Trustees and that there is a seamless transition between Trustees retiring and new Trustees joining the Board. In the period of this report one Trustee retired and one new Trustee was appointed. The list of Trustees on page 24 includes the details. The Gallery has also strengthened the membership of its Audit & Compliance Committee in the year with the appointment of two new independent members, recruited to broaden the Committee's expertise and to ensure that meetings are always quorate. The Company also recruited a new independent non-executive director in March 2012 to replace the previous non-executive director who retired in November 2011. The Board complies with the principles laid out in *Corporate governance in central government departments*, "the Code". There are certain principles in the Code which are not applicable to the Gallery's Board and these relate in the main to central government boards' roles relating to government policy making and the powers of ministers. Other elements which are not applicable include certain elements in the Code dealing with board composition and the board's relationship with its Arms Length Bodies. Furthermore, there is a key difference between the Gallery's Board and those in central government, for whom this guidance has been written, in that the Gallery's Board of Trustees has statutory obligations to observe under the Museums and Galleries Act 1992, whereas central government boards are purely advisory.

### **Assurances and other data provided to the Board**

The Board receives information from a wide variety of sources which underpins its assessment of the effectiveness and strength of governance and internal control. Besides its own review of effectiveness and the reports from the Chair of Audit and Compliance Committee, the Board receives and places reliance on reports from both internal and external audit. The Board also receives quarterly financial reports (in the form of summary management accounts including an explanatory narrative) which are supported by financial and non-financial key performance indicators, to provide Trustees with a broad picture of performance in the quarter. The data in the financial reports is reconciled to the year-end accounts which are independently audited. The Board and the Audit and Compliance Committee review on a quarterly basis the Corporate Risk Register, which contains the key risks facing the Gallery. Audit & Compliance Committee also review certain of the Departmental Risk Registers which underpin the Corporate Risk Register to see how the risks in the Departmental Registers feed up into the Corporate Risk Register. The Audit and Compliance Committee also discusses, on a regular basis, internal control and risk management in areas critical to the Gallery's business with the relevant Heads of Department, to ensure that risks are effectively managed in these areas, and that the Corporate Risk Register reflects the profile of risk covered in the discussions with the Head of Department. Trustees receive a weekly summary of the Gallery's coverage in the Press, including high-lights, which assist in providing Trustees with an external view of the Gallery's performance.

As a matter of course, the Board reviews and approves key Gallery policies, and revisions to them. It also receives annual reports from senior management relating to important areas of compliance and how the Gallery has conducted itself in these areas, for instance in Health and Safety and Freedom of Information. Senior management also provide annual reports covering important Gallery programmes, like the Exhibitions Programme and the work undertaken as part of its National

Programme with regional bodies and other external partners. These reports and submissions provide the Board with a broad picture of how the Gallery is performing.

At the year end, budget managers provide the Accounting Officer with an annual assurance statement confirming that they have complied with the National Portrait Gallery's published policies and with the financial and risk management procedures. In rare circumstances budget managers have qualified their statements and where this is considered material, the statement is brought to the attention of the Audit & Compliance Committee. No material qualifications were brought to the attention of the Accounting Officer or the Audit and Compliance Committee in 2011/12.

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

Each year the Trustees review the Gallery's risk appetite, which sets the level of risk the Gallery is willing to accept across different areas of its programmes and operations. They also review the criteria for evaluating risk. Both these factors are critical in ensuring that risk is evaluated in a consistent manner and that the Gallery's response to the risk is appropriate. How the Gallery's risk profile is reviewed and monitored has been explained already. Internal Audit review the Gallery's risk management processes every other year – last reviewed in April 2011 - and report their findings to the Accounting Officer and Audit & Compliance Committee. The Chair of the Audit & Compliance Committee, in an annual report on risk to the Board, explains the Gallery's response to risk during the year, and outlines the key risks facing the Gallery into the future. As at 31 March 2012 the key risks facing the Gallery in the forthcoming year are mainly financial, reputational and public order related, these include the following:

- Reduction in future grant-in-aid allocations. There is a risk that if the Government does not make headway in reducing the UK's deficit, the Treasury may make further cuts in public sector funding which would have an impact on the grant-in-aid the Gallery receives from the DCMS. In response to this risk, the Gallery's 2012/15 Budget has maintained a prudent level of reserves to enable it to respond in the short term to cuts in its grant-in-aid. It has also considered how it would respond in the longer term should further cuts in grant-in-aid materialise.
- Restricted access to historic reserves. Treasury resource budgeting rules continue to restrict the Gallery's full access to its historic reserves to fund certain elements of its expenditure. To date the Gallery and the DCMS have been able to manage this satisfactorily, but further reductions in funding, or a drop in self generated income, could make this problematic in the future. The 2012/15 Budget has been framed to minimise the call on the Gallery's historic reserves. The Gallery may also apply for funding from the newly created Portrait Trust for funding in future financial years to help alleviate the calls it might have otherwise made on its historic reserves.
- The Eurozone. There remains a risk that the Eurozone sovereign debt crisis, if it remains unresolved, could plunge the Eurozone countries and the UK back into recession. Should this happen it would depress any revival in economic growth, potentially reducing the Gallery's income earning prospects and prompting the Government to undertake further austerity measures across the public sector. The Gallery and its investment advisors are monitoring closely the impact of events in the Eurozone on financial markets in order to respond swiftly to any immediate impact such events might have on the Gallery's reserves invested in them. Its 2012/15 Budget has maintained a prudent level of reserves to enable the Gallery to respond to any significant fall in self-generated income in the event of an economic downturn.
- Disruption in the lead up to and during the Olympic Games. The travel and traffic restrictions that will be introduced in the period of the Olympics could disrupt the Gallery's business during the period. Furthermore there is a heightened risk that such a high profile event might attract public order disturbances or a terrorist attack, which would discourage visitors to Central London and therefore reduce significantly the footfall into the Gallery. In view of the Gallery's location, an attack or disturbance in the immediate vicinity could endanger the visiting public, Gallery staff and the collections. The Gallery has prepared a plan to take account of the travel restrictions facing staff and suppliers. It also has a response plan in the event of a terrorist attack or civil disorder disturbances. It is working closely with Transport for London and the Metropolitan Police in making preparations for the period of the Olympic and Paralympic Games.

- High inflation. If inflation remains stubbornly high, then this would put additional pressure on the Gallery's cost base and further savings would be needed to maintain a balanced budget, which could compromise the quality of the Gallery's offer to its visiting public. The Gallery's budget for the remainder of the life of this Parliament has made a prudent assessment of inflation over the period.

The National Portrait Gallery has suffered no protected personal data incidents in 2011/12 and has made no such report to the Information Commissioner's Office.

No ministerial directions were given.



Sandy Nairne CBE  
Accounting Officer  
28 June 2012



Professor Sir David Cannadine  
Chair of Trustees  
28 June 2012

## Appendix to Governance Statement – Trustee attendance 2011/12

### Full Board meeting attendance

	Attendance in 2011/12 (%)
<b>Current Trustees</b>	
Professor Sir David Cannadine (Chairman)	100
Zeinab Badawi	50
Sir Nicholas Blake	75
The Marchioness Douro	75
David Ross	100
Dr Augustus Casely-Hayford	100
Lord Janvrin	100
Marina Warner	100
Sir William Proby	100
Dr Rosalind Blakesley	100
Professor Dame Carol Black	100
Kim Evans	100
Mary McCartney	100
Allegra Berman	100
Dame Amelia Fawcett	100
<b>Average attendance by Trustees over the year</b>	<b>93</b>

### Audit and Compliance Committee attendance

	Attendance in 2011/12 (%)
<b>Attendance</b>	
David Ross (Trustee)	100
Sir Nicholas Blake (Trustee)	50
Dr Augustus Casely-Hayford (Trustee)	50
Kim Evans (Trustee)	75
Stephen Souchon	50
Neil Spence	67
Jacqueline Riding	100
<b>Average attendance by Committee members over the year</b>	<b>67</b>

## **Investment Committee attendance**

Attendance in  
2011/12 (%)

### **Attendance**

Dame Amelia Fawcett (Trustee)	100
Lord Janvrin (Trustee)	100
Jeremy Sillem	100
Anthony Brooke	67
Ben Whitmore	67
Allegra Berman (Trustee)	100

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

**93**

These statistics show attendance by Trustees at full Board and Board sub-committee meetings held during 2011/12. The tables do not include the Trustees' attendance at numerous events held by the Gallery during the year, or the meetings attended or consultations given by Trustees about Gallery business outside of these Board and sub-committee meetings.

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

I certify that I have audited the financial statements of the National Portrait Gallery for the year ended 31 March 2012 under the Museum and Galleries Act 1992. The financial statements comprise: the Consolidated Statement of Financial Activities, the Consolidated and Gallery Balance Sheets, the Consolidated Cash Flow Statement, and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

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

As explained more fully in the Statement of Trustees' and Director's Responsibilities, the Trustees and the Director, as Accounting Officer, are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Museums and Galleries Act 1992. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the National Portrait Gallery's and the group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by National Portrait Gallery; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate and report.

I am required to obtain evidence sufficient to give reasonable assurance that the incoming resources and resources expended recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

### **Opinion on regularity**

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

### **Opinion on financial statements**

In my opinion:

- the financial statements give a true and fair view of the state of the group's and of the National Portrait Gallery's affairs as at 31 March 2012 and of its net outgoing resources and application of resources for the year then ended; and
- the financial statements have been properly prepared in accordance with the Museums and Galleries Act 1992 and Secretary of State directions issued thereunder.

### **Opinion on other matters**

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with Secretary of State directions made under the Museums and Galleries Act 1992; and
- the information given in Activities, Performance and Planned Future Developments; the Financial Review; and in The Board of Trustees and Professional Advisers for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Matters on which I report by exception**

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

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

**Report**

I have no observations to make on these financial statements.

**Amyas C E Morse**  
**Comptroller and Auditor General**

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

6 July 2012

**CONSOLIDATED STATEMENT OF FINANCIAL  
ACTIVITIES FOR THE YEAR ENDED 31 MARCH 2012**

	Notes	Unrestricted Funds £000	Restricted Funds £000	Total 2012 £000	Total 2011 £000
<b>INCOMING RESOURCES</b>					
<b>Grant in Aid</b>	2a	7,170	228	<b>7,398</b>	7,577
<b>Incoming resources from generated funds</b>					
Voluntary Income	2b	799	1,832	<b>2,631</b>	2,148
Activities for generating funds	2c	3,695	-	<b>3,695</b>	2,736
Investment income	3	28	-	<b>28</b>	69
<b>Incoming resources from charitable activities</b>					
Exhibitions admissions and touring income		1,955	-	<b>1,955</b>	990
Exhibition and programme sponsorship income		819	-	<b>819</b>	425
Learning and access income		41	-	<b>41</b>	51
<b>Other income</b>	2d	230	-	<b>230</b>	296
<b>Total incoming resources</b>		<b>14,737</b>	<b>2,060</b>	<b>16,797</b>	<b>14,292</b>
<b>RESOURCES EXPENDED</b>					
<b>Costs of generating funds</b>					
Costs of generating voluntary income	5	591	16	<b>607</b>	587
Fundraising trading: cost of goods sold and other costs	5	2,747	16	<b>2,763</b>	2,441
Investment management costs	5	15	15	<b>30</b>	4
<b>Total costs of generating funds</b>		<b>3,353</b>	<b>47</b>	<b>3,400</b>	<b>3,032</b>
<b>Resources expended on charitable activities</b>					
Extending and broadening audiences	5	2,477	790	<b>3,267</b>	3,362
Developing the Collection	5	4,103	158	<b>4,261</b>	4,328
Increasing understanding and engagement with the Collection	5	5,356	912	<b>6,268</b>	6,006
<b>Governance costs</b>	5	129	11	<b>140</b>	132
<b>Total Resources expended</b>		<b>15,418</b>	<b>1,918</b>	<b>17,336</b>	<b>16,860</b>
<b>Net (outgoing)/incoming resources for the year before transfers</b>		<b>(681)</b>	<b>142</b>	<b>(539)</b>	<b>(2,568)</b>
Transfers between funds in year	13	(208)	208	-	-
<b>Net (outgoing)/incoming resources for the year before other recognised gains and losses</b>		<b>(889)</b>	<b>350</b>	<b>(539)</b>	<b>(2,568)</b>
Gains on investments	8	197	258	<b>455</b>	167
(Losses)/Gains on revaluation of fixed assets for charity's own use	6&13	179	4,010	<b>4,189</b>	1,429
Net movement in funds		(513)	4,618	<b>4,105</b>	(972)
Fund balances brought forward at 1 April		13,438	56,062	<b>69,500</b>	70,472
<b>Fund balances carried forward at 31st March</b>		<b>12,925</b>	<b>60,680</b>	<b>73,605</b>	<b>69,500</b>

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 44 to 67 form part of these accounts.

**CONSOLIDATED BALANCE SHEET**  
**AS AT 31 MARCH 2012**

	Notes	£000	2012 £000	2011 £000
<b>Fixed Assets</b>				
Tangible assets	6		50,299	48,035
Heritage Assets	7		11,973	11,085
Available for Sale Financial Assets - Investments	8		2,715	2,136
			<u>64,987</u>	<u>61,256</u>
<b>Current Assets</b>				
Stock	11	310		241
Debtors and prepayments	10	969		580
Available for Sale Financial Assets - Investments	8	6,552		5,622
Cash at bank and in hand	9	3,252		3,657
			<u>11,083</u>	<u>10,100</u>
<b>Current Liabilities</b>				
Creditors (amounts falling due within one year)	12		<u>2,442</u>	<u>1,811</u>
<b>Net Current Assets</b>			<b>8,641</b>	<b>8,289</b>
<b>Total Assets less Current Liabilities</b>			<b>73,628</b>	<b>69,545</b>
<b>Long Term Liabilities</b>				
Creditors (amounts falling due after one year)	12		23	45
<b>Net Assets</b>			<b>73,605</b>	<b>69,500</b>
Represented by:				
<b>Restricted Funds</b>				
Restricted Funds	13		45,432	56,062
Fixed Asset Revaluation Fund	13		15,248	-
<b>Total Restricted Funds</b>	13		<u>60,680</u>	<u>56,062</u>
<b>Unrestricted Funds</b>				
Designated funds	13		12,496	13,188
Fixed asset revaluation fund	13		179	-
<b>Total Designated funds</b>	13		<u>12,675</u>	<u>13,188</u>
General funds	13		250	250
<b>Total Funds</b>			<b>73,605</b>	<b>69,500</b>

The notes on pages 44 to 67 form part of these accounts.

Sandy Nairne CBE  
Accounting Officer  
28 June 2012

Professor Sir David Cannadine  
Chairman of Trustees  
28 June 2012

**GALLERY BALANCE SHEET**  
**AS AT 31 MARCH 2012**

	Notes	£000	2012 £000	2011 £000
<b>Fixed Assets</b>				
Tangible assets	6		50,299	48,035
Heritage Assets	7		11,973	11,085
Available for Sale Financial Assets - Investments	8		<u>2,715</u>	<u>2,136</u>
			<b>64,987</b>	61,256
<b>Current Assets</b>				
Stock	11	124		100
Debtors and prepayments	10	1,693		967
Available for Sale Financial Assets - Investments	8	6,552		5,622
Cash at bank and in hand		<u>2,643</u>		<u>3,373</u>
		<b>11,012</b>		10,062
<b>Current Liabilities</b>				
Creditors (amounts falling due within one year)	12		<u>2,371</u>	<u>1,773</u>
<b>Net Current Assets</b>			<b>8,641</b>	8,289
<b>Total Assets less Current Liabilities</b>			<u>73,628</u>	<u>69,545</u>
<b>Long Term Liabilities</b>				
Creditors (amounts falling due after one year)	12		23	45
<b>Net Assets</b>			<u><b>73,605</b></u>	<u>69,500</u>
Represented by:				
<b>Restricted Funds</b>	13		45,432	56,062
<b>Fixed Asset Revaluation Fund</b>	13		<u>15,248</u>	-
<b>Total Restricted Funds</b>	13		<b>60,680</b>	56,062
<b>Unrestricted Funds</b>				
Designated funds	13		12,496	13,188
Fixed asset revaluation fund	13		<u>179</u>	-
Total Designated funds	13		<b>12,675</b>	13,188
General funds	13		250	250
<b>Total Funds</b>			<u><b>73,605</b></u>	<u>69,500</u>

The notes on pages 44 to 67 form part of these accounts.

Sandy Nairne CBE  
Accounting Officer  
28 June 2012

Professor Sir David Cannadine  
Chairman of Trustees  
28 June 2012

**CONSOLIDATED CASH FLOW STATEMENT**  
**AS AT 31 MARCH 2012**

	Notes	<b>2012</b> <b>£000</b>	2011 £000
Net cash inflow from operating activities	19(a)	<b>1,652</b>	(50)
Capital expenditure and financial investment	19(b)	<b>(1,031)</b>	(661)
Management of liquid resources	19(b)	<b>(1,054)</b>	(7,556)
Return on investments and servicing of finance	19(b)	<b>28</b>	69
<b>(Decrease)/Increase in cash in the year</b>		<b><u>(405)</u></b>	<b><u>(8,198)</u></b>

The notes on pages 44 to 67 form part of these accounts.

## **NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2012**

### **1. ACCOUNTING POLICIES**

#### **a) *Basis of accounting***

The accounts have been prepared under the historic cost convention modified to include the revaluation of land and buildings and required valuation methods for financial instruments. The accounts comply with the Statement of Recommended Practice 2005, Accounting and Reporting by Charities, applicable accounting standards and the Accounts Direction issued by the Department for Culture, Media and Sport. The accounts include the Grant-in-Aid account and two trust funds (established by the Gallery under Deeds of Trust) administered by the Gallery (the Dame Helen Gardner bequest and the Portrait Fund) and exclude the American Friends of the National Portrait Gallery (London) Foundation Inc, a US grant-giving organisation with 501 (c) (3) tax status, over which the Gallery has no direct control. The accounts also exclude the Portrait Trust, which is an independent foundation trust established in March 2012, over which the Gallery has no control. The Gallery is recognised as an exempt charity under the provisions of the Charities Act 2011.

The Consolidated accounts are for the National Portrait Gallery and its subsidiary National Portrait Gallery Company Limited (the Company); the Company began trading on 1 April 2007. The Gallery is exempt from corporation tax on its charitable activities under section 505 of the Income and Corporation Taxes Act 1998. Income arising from activities of the trading subsidiary are gift aided to the Gallery.

#### **b) *Incoming resources***

All incoming resources are included in the Statement of Financial Activities when the Gallery is entitled to the income and the amount can be quantified with reasonable accuracy.

Income received in advance is deferred where it would be repayable if conditions are not met in the future.

Grant-in-Aid from the Department for 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.

All income from exhibition sponsorship is recognised in full in the year in which the exhibition commences.

#### **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. Irrecoverable VAT is treated as an expense.

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.

Liabilities are recognised where legal or constructive obligations mean that it is more likely than not that a transfer of economic benefit will be made.

## 1. ACCOUNTING POLICIES (continued)

### d) *Fund accounting*

Unrestricted funds:

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

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

Restricted funds include the Portrait Fund. The Portrait Fund is governed by a separate Declaration of Trust, through which an initial balance for the Fund of £1,087,000 was transferred to restricted funds. Subsequent income provided to the Fund can only be recognised as restricted income if it is received from donors specifying that the donation is for the purposes of the Portrait Fund.

### e) *Heritage assets*

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

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

### f) *Tangible fixed assets*

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

Land and buildings are professionally valued every five years; the last such valuation was undertaken as at 31 March 2009. In the years between professional valuations of land and buildings, and every year for certain other fixed assets, National Statistical and other appropriate indices are used to adjust the net book value of the assets. In 2011/12 a valuation provided by BNP Paribas Real Estate was used to value Gallery land. The buildings were valued according to indices provided from the Department for Business, Innovation and Skills Price Tender Index for Public Sector Buildings (Non Housing), and National Statistics were used to value Gallery plant and machinery. Assets other than land, buildings, plant and machinery are accounted for on a depreciated historical cost basis, these assets are either of low value or have short lives, therefore the impact of applying indexation would not be material. Impairment reviews are carried out at the end of each reporting period, in accordance with FRS11, to ensure that the carrying values of the assets reflect the recoverable amounts.

Depreciation is provided on all tangible fixed assets, except freehold land, at rates calculated to write off the costs less estimated residual value of each asset on a straight line basis. For buildings and plant and machinery, depreciation is calculated after indexation; for assets under construction, depreciation is not charged until the year the asset has been brought into use. Depreciation is charged on additions and not on disposals.

Indicative asset lives are as follows:

Freehold buildings	20 - 70 years
Leasehold land and buildings	length of lease
Leasehold land and buildings	10 - 30 years
Plant and machinery	10 - 15 years
Furniture and equipment	4 - 10 years

## 1. ACCOUNTING POLICIES (continued)

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 revaluation is recognised in the Statement of Financial Activities.

### g) *Financial Instruments*

#### *Financial Assets*

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

#### i. Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. The Gallery has no intention of trading these loans and receivables. Subsequent to initial recognition at fair value, these assets are carried at amortised cost, less impairment, using the effective interest method. Loans and receivables consist of trade and other debtors, and a loan provided by the Gallery to its wholly owned subsidiary company, the National Portrait Gallery Company Limited. The loan was fully repaid by the Company as at 31 March 2012.

#### ii. Available-for-sale financial assets

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

Investments that are treated as AFS financial assets are stated at fair value (market value). Where possible, investments are valued using unadjusted quoted prices in active markets for identical financial instruments. It is the Gallery's policy to keep valuations up to date such that when investments are sold there is no gain or loss arising. As a result, the Statement of Financial Activities only includes those unrealised gains or losses arising from the revaluation of the portfolio throughout the year. Disclosure is made in Note 8 of the difference between historical cost and the sale proceeds of the investments sold during the year.

#### *Impairment of financial assets*

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

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

#### *Financial liabilities*

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

### h) *Stock*

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

Books, catalogues, posters and postcards produced by the Gallery are sold to the Company on consignment. The consignment stock is an asset of the Gallery.

## 1. ACCOUNTING POLICIES (continued)

### i) *Leases*

The Gallery has no 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) which are described at Note 5. The defined benefit elements of the schemes are unfunded and are non-contributory except in respect of dependents' benefits. The Gallery recognises the expected costs of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution elements of the schemes, the Gallery recognises the contributions payable for the year.

### l) *Governance costs*

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

<b>2a. GRANT IN AID</b>	Unrestricted Funds £000	Restricted Funds £000	<b>Total 2012 £000</b>	Total 2011 £000
Running costs	7,170	-	<b>7,170</b>	7,402
Capital costs	-	228	<b>228</b>	175
			<b><u>7,398</u></b>	<b><u>7,577</u></b>

£7,398,000 of Grant-in-Aid was received during the year (£7,577,000 in 2010/11).

This money is available for running costs, capital improvements and collection purchases; of this, £228,000 was utilised by the Gallery towards Primary Collection acquisitions.

<b>2b. VOLUNTARY INCOME</b>	Unrestricted Funds £000	Restricted Funds £000	<b>Total 2012 £000</b>	Total 2011 £000 Restated
Fundraising dinners	133	-	<b>133</b>	67
Individual giving	547	-	<b>547</b>	406
Grants and donations	114	1,296	<b>1,410</b>	1,095
Donated acquisitions	-	173	<b>173</b>	368
Donations for acquisitions	-	363	<b>363</b>	127
Legacies	1	-	<b>1</b>	66
Other fundraising income	4	-	<b>4</b>	19
	<b><u>799</u></b>	<b><u>1,832</u></b>	<b><u>2,631</u></b>	<b><u>2,148</u></b>

<b>2c. ACTIVITIES FOR GENERATING FUNDS</b>	Unrestricted Funds £000	Restricted Funds £000	<b>Total 2012 £000</b>	Total 2011 £000
Corporate members	148	-	<b>148</b>	103
Publications	509	-	<b>509</b>	249
Picture Library	334	-	<b>334</b>	342
<b>Trading income</b>				
Gallery hire	358	-	<b>358</b>	244
Retail	1,896	-	<b>1,896</b>	1,380
Catering franchise	450	-	<b>450</b>	418
	<b><u>3,695</u></b>	<b><u>-</u></b>	<b><u>3,695</u></b>	<b><u>2,736</u></b>

<b>2d. OTHER INCOME</b>	Unrestricted Funds £000	Restricted Funds £000	<b>Total 2012 £000</b>	Total 2011 £000
Recovery of utility costs	62	-	<b>62</b>	47
Sale of audio guide, floor plans, locker charges	39	-	<b>39</b>	27
Miscellaneous trading income	110	-	<b>110</b>	27
Collection loans income	8	-	<b>8</b>	12
Overpaid VAT recovery	-	-	<b>-</b>	177
Other	11	-	<b>11</b>	6
	<b><u>230</u></b>	<b><u>-</u></b>	<b><u>230</u></b>	<b><u>296</u></b>

<b>3. INVESTMENT INCOME</b>	<b>2012 £000</b>	2011 £000
Bank interest	<b>26</b>	67
Investment dividends	<b>2</b>	2
	<b><u>28</u></b>	<b><u>69</u></b>

<b>4. NET INCOMING/(OUTGOING) RESOURCES BEFORE TRANSFERS</b>	<b>2012 £000</b>	2011 £000
is stated after charging:	<b>2012 £000</b>	2011 £000
a) External auditors' remuneration		
National Audit Office	<b>30</b>	
Littlejohn LLP	<b>9</b>	37
b) Internal auditors' remuneration	<b>23</b>	18
c) Operating lease rentals on land and buildings	<b>17</b>	67
d) Operating lease rental on fixtures & equipment	<b>8</b>	9
e) Depreciation	<b>2,225</b>	2,214
f) Loss on disposal of fixed assets	<b>26</b>	129

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

Loss on disposal of fixed assets is included under Depreciation in Note 5.

## 5. TOTAL RESOURCES EXPENDED

	Direct costs	Allocated support costs	2012	2011
	£000	£000	Total £000	Total £000
<b>Costs of generating funds</b>				
Costs of generating voluntary income	440	167	607	587
<b>Fundraising trading: cost of goods sold and other costs</b>				
Charitable trading	1,170	204	1,374	1,170
Non-charitable trading	1,101	288	1,389	1,271
<b>Total costs of fundraising trading</b>	2,271	492	2,763	2,441
<b>Investment management costs</b>	30	-	30	4
<b>Extending and broadening audiences</b>				
Publicity and information	1,048	65	1,113	1,227
National programme	193	30	223	242
Learning and access	1,147	784	1,931	1,893
	2,388	879	3,267	3,362
<b>Developing the Collection</b>				
Collection management	3,055	1,206	4,261	4,328
<b>Increasing understanding and engagement with the Collection</b>				
Research and documentation	1,317	783	2,100	1,968
Exhibitions and display	1,910	2,258	4,168	4,038
	3,227	3,041	6,268	6,006
<b>Governance costs</b>	83	57	140	132
	<b>11,494</b>	<b>5,842</b>	<b>17,336</b>	<b>16,860</b>

## ALLOCATION OF SUPPORT COSTS

	Directorate & Office Services	Personnel	Finance & Planning	IT & Communications	Facilities Management	Depreciation and loss on disposal	Support Salary costs	Total 2012	Total 2011
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Costs of generating voluntary income	11	8	3	26	18	23	78	167	159
Charitable trading	11	8	7	26	34	41	77	204	194
Non-charitable trading	3	20	10	18	78	-	159	288	268
<b>Costs of generating funds</b>	<b>25</b>	<b>36</b>	<b>20</b>	<b>70</b>	<b>130</b>	<b>64</b>	<b>314</b>	<b>659</b>	<b>621</b>
Publicity and information	4	2	6	6	15	14	18	65	54
National programme	3	1	1	4	4	5	12	30	27
Learning and access	15	11	7	36	254	354	107	784	737
<b>Extending and broadening audiences</b>	<b>22</b>	<b>14</b>	<b>14</b>	<b>46</b>	<b>273</b>	<b>373</b>	<b>137</b>	<b>879</b>	<b>818</b>
Collection management	5	54	17	10	259	348	513	1,206	1,218
<b>Developing the Collection</b>	<b>5</b>	<b>54</b>	<b>17</b>	<b>10</b>	<b>259</b>	<b>348</b>	<b>513</b>	<b>1,206</b>	<b>1,218</b>
Research and documentation	23	18	8	59	211	291	173	783	744
Exhibitions and display	24	19	11	61	815	1,149	179	2,258	2,140
<b>Increasing understanding and engagement with the Collection</b>	<b>47</b>	<b>37</b>	<b>19</b>	<b>120</b>	<b>1,026</b>	<b>1,440</b>	<b>352</b>	<b>3,041</b>	<b>2,884</b>
<b>Governance costs</b>	<b>2</b>	<b>1</b>	<b>-</b>	<b>2</b>	<b>19</b>	<b>27</b>	<b>6</b>	<b>57</b>	<b>55</b>
<b>Total</b>	<b>101</b>	<b>142</b>	<b>70</b>	<b>248</b>	<b>1,707</b>	<b>2,252</b>	<b>1,322</b>	<b>5,842</b>	<b>5,596</b>

The figure for Depreciation and loss on disposal includes a loss on disposal of fixed assets of £176,000.

## 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

<b>GOVERNANCE COSTS</b>	<b>2012</b>	<b>2011</b>
	<b>£000</b>	<b>£000</b>
Breakdown of direct costs		
Trustees' meetings and expenses	<b>3</b>	3
Internal Audit	<b>23</b>	18
External Audit	<b>30</b>	29
Finance and Planning costs	<b>27</b>	27
	<b>83</b>	<b>77</b>

External audit fees stated are for the Gallery only. The audit fees for the Company are included under Non-charitable trading costs.

<b>a) Staff costs</b>	<b>2012</b>	<b>2011</b>
	<b>£000</b>	<b>£000</b>
Staff costs during the year amounted to:		
Wages and salaries	<b>7,598</b>	7,389
National Insurance	<b>529</b>	513
Pension	<b>1,126</b>	1,145
	<b>9,253</b>	<b>9,047</b>

Of which staff costs capitalised for digitising the Collection: 56 56  
equivalent to 2 FTE staff in both 2011/12 and 2010/11

The Company does not employ any staff directly and uses staff seconded from the Gallery. The costs of the staff were recharged to the Company. In 2011/12, the value of the seconded staff costs was £481,831 ( £510,175 in 2010/11) which was equivalent to 19.5 full time staff (20.5 in 2010/11).

The Trustees neither received nor waived any emoluments during the year (also in 2010/11). Expenses reimbursed or paid on behalf of one Trustee amounted to £427, relating to travel and subsistence (in 2010/11, £359 for travel and subsistence of one Trustee).

### Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a final salary scheme (classic, premium or classic plus); or a whole career scheme (nuvos). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus and nuvos are increased annually in line with Pensions Increase legislation. Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium, classic plus and nuvos. Increases to employee contributions will apply from 1 April 2012. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as in premium. In nuvos a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of three providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus and 65 for members of nuvos.

Further details about the Civil Service pension arrangements can be found at the website <http://www.civilservice-pensions.gov.uk/>.

## 5. TOTAL RESOURCES EXPENDED (continued)

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but the National Portrait Gallery is unable to identify its share of the underlying assets and liabilities. The Scheme Actuary valued the scheme as at 31 March 2007. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation ([www.civilservice.gov.uk/pensions](http://www.civilservice.gov.uk/pensions)). For 2011/12, employers' contributions of £1,098,874 were payable to the PCSPS (2010/11 £1,123,619) at one of four rates in the range 16.7% to 24.3% (2010/11, 16.7% to 24.3%) of pensionable pay, based on salary bands. The Scheme Actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2011/12 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £27,356 (£21,352 in 2010/11) were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £2,014, (£1,702 in 2010/11), 0.8% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service or ill health retirement of these employees.

Contributions due to the partnership pension providers at the balance sheet date were £3,018 (£2,122 in 2010/11). There were no contributions prepaid at that date.

All staff joining the Gallery as from July 2007 who are contracted for one year or more automatically join the nuvos pension scheme whereas if their contract is for less than one year they have the option to join it. The Employee/Employer contributions are the same for nuvos as for premium and classic plus schemes.

### Numbers of Employees

The number of employees, comprising the Director and 3 other members of the Senior Management Team (4 in 2010/11) whose emoluments as defined for taxation purposes amounted to over £60,000 in the year are as follows:

	2012	2011
£60,001 - £70,000	3	2
£70,001 - £80,000	-	2
£100,001 - £110,000	1	-
£110,001 - £120,000	-	1

These employees are accruing benefits under defined benefit schemes and received no benefits-in-kind.

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

			2012	2011
	Permanent staff	Temporary staff	Number	Number
Costs of generating voluntary income	13	-	13	13
Charitable trading	13	-	13	14
Non-charitable trading	18	-	18	17
<b>Extending and broadening audiences</b>				
Publicity and information	3	-	3	3
National programme	2	-	2	2
Learning and access	17	1	18	17
<b>Developing the Collection</b>				
Collection management	78	8	86	94
<b>Increasing understanding and engagement with the Collection</b>				
Research and documentation	28	1	29	29
Exhibitions and display	30	-	30	28
<b>Governance</b>	1	-	1	1
<b>Support</b>	28	1	29	32
	231	11	242	250

As at 31 March 2012, 59 staff had season ticket and training loans outstanding worth a total of £63,201 included in Other Debtors (2010/11 41 staff had loans totalling £48,672).

## 6. TANGIBLE FIXED ASSETS

	Land and buildings £000	Plant and machinery £000	Furniture & equipment £000	Total tangible assets £000
Valuation/cost at 1 April 2011	40,181	11,132	2,281	53,594
Additions	-	45	279	324
Disposals	(27)	(165)	(8)	(200)
Revaluation adjustment	4,058	224	-	4,282
Transfer of assets	-	-	-	-
Valuation/cost at 31 March 2012	<b>44,212</b>	<b>11,236</b>	<b>2,552</b>	<b>58,000</b>
Depreciation at 1 April 2011	1,709	2,088	1,762	5,559
Transfers	(44)	44	-	-
Disposals	(2)	(166)	(8)	(176)
Depreciation	856	1,040	329	2,225
Revaluation adjustment	48	45	-	93
Depreciation at 31 March 2012	<b>2,567</b>	<b>3,051</b>	<b>2,083</b>	<b>7,701</b>
Net book value at 31 March 2012	<b>41,645</b>	<b>8,185</b>	<b>469</b>	<b>50,299</b>
Net book value at 31 March 2011	<b>38,472</b>	<b>9,044</b>	<b>519</b>	<b>48,035</b>

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

The net book value at 31 March 2012 represents fixed assets for:

	Land & Buildings £000	Plant & Machinery £000	Furniture & Equipment £000	Total £000
Charitable activities	37,703	7,410	425	45,538
Other activities	3,942	775	44	4,761
Total	<b>41,645</b>	<b>8,185</b>	<b>469</b>	<b>50,299</b>

All the Gallery's land and buildings were revalued in accordance with the RICS Valuation Standards (the "Red Book") by the firm of chartered surveyors, Atisreal UK, at 31 March 2009, at which time they were valued at £40.1 million (excluding plant and machinery, which was valued at £9.8 million, and this excluded the value of plant and machinery at the Merton store). In accordance with HM Treasury guidance, all other assets have been valued on a depreciated historical cost basis.

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, fit out and plant and machinery. Structural and fit out are disclosed under the land and buildings category.

**St Martin's Place:** The main Gallery at St. Martin's Place was transferred from ('vested by') the Secretary of State for the Environment and the Crown to the Trustees of the Gallery on 12 January 1994, although title was not registered to the Trustees until 7 June 1994. The main Gallery was brought into the books in 1994 at a net book value of £43.7million and was revalued at 31 March 2009 on a depreciated replacement cost basis of £43.1million (including plant and machinery). The current net book value is £42.9 million including plant and machinery).

**Orange Street and Charing Cross Road:** The land and buildings at 39-45 Orange Street and 1 Charing Cross Road were purchased by the Trustees in 1988/89 for £1.5 million. This conveyance contains a covenant which states: "that the property shall not be used for any purpose other than for the purposes of The National Portrait Gallery as a non-profit making public art gallery and offices, library and storage and shop for the sale of books, souvenirs and pictures and restaurant and catering for visitors to the public and/or other similar. In each case strictly ancillary to the use of the property or the premises now known as The National Portrait Gallery as a public art gallery." They were reconstructed as part of the Gallery Development Plan to provide new accommodation for the archives and gallery administration. The buildings were occupied from October 1993, and were brought into the balance sheet as at 31 March 1994 at a value of £9.1 million (including plant and machinery). These properties were revalued at 31 March 2009 on an existing use basis at £6.8million (including plant and machinery), with an allowance to reflect the restrictions described. The current net book value is £6.9 million (including plant and machinery).

**Merton store:** Land and buildings used for storage at Merton are held on an operating lease and these assets have not been capitalised. The Merton store lease was originally for a five year term which expired in May 2009. At the end of this term the lease was renewed for a further period of 30 months up until 30 November 2011, with a break clause which could be exercised at 31 May 2011. The shorter lease was taken at that point as management were contemplating alternative options for Collection storage. In February 2011 the Merton store was vacated and the Gallery's collections held at the store were moved to a shared store with Tate. Dilapidation work was undertaken shortly after the store was vacated and the lease was terminated on 31 May 2011. The value of the plant and machinery has been written down to reflect the early termination of the lease on 31 May 2011.

The net book value of land and buildings relates to:

	£000
Freehold	40,843
Long term lease (greater than 50 years)	802
Short term lease (less than 50 years)	-
	<u>41,645</u>

## 7. HERITAGE ASSETS

	Assets reported at Cost			Assets reported at Valuation			Total £000
	Primary £000	Reference £000	Photographs £000	Primary £000	Reference £000	Photographs £000	
Valuation/cost at 1 April 2011	8,397	38	450	2,012	35	153	11,085
Additions	687	2	26	158	2	13	888
Valuation/cost at 31 March 2012	<b>9,084</b>	<b>40</b>	<b>476</b>	<b>2,170</b>	<b>37</b>	<b>166</b>	<b>11,973</b>

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

There were no disposals or impairments of heritage assets in the period.

Additions in the year comprise:

### *Primary Collection*

£687,000 purchases of portraits – paintings, sculptures and photographs.  
£158,000 donations of paintings, sculptures and photographs.

### *Reference Collection*

£2,000 purchases of prints, drawings, paintings and sculptures.  
£2,000 donations of prints, drawings, paintings and sculptures.

### *Photographs Collection*

£26,000 purchases of photographs and historic negatives.  
£13,000 donations of purchases of photographs and historic negatives.

Summary of Heritage asset transactions

	2012 £000	2011 £000	2010 £000	2009 £000	2008 £000
<b>Additions</b>					
Purchased assets	715	161	340	1,919	710
Donated assets	173	368	714	112	143
<b>Total</b>	<b>888</b>	<b>529</b>	<b>1,054</b>	<b>2,031</b>	<b>853</b>

There were no disposals or impairments of heritage assets in the period.

The Gallery's collections are held in support of its statutory obligations to promote, through the medium of portraits, the appreciation and understanding of the men and women who have made and are making British history and culture, and to promote the appreciation and understanding of portraiture in all media.

### *Primary Collection*

The Primary Collection of paintings, sculpture, miniatures, drawings, prints and photographs contains some 11,300 portraits of the most famous people in British history. Of these more than 4,200 are paintings, sculptures and miniatures, approaching 60% of which are regularly displayed at the National Portrait Gallery or elsewhere, including loans outside the UK. In addition, there are some 7,000 works on paper, shown on a rotating basis of about 300 items a year. All the portraits in the Primary Collection are accessible on the website in the search mechanism, Search the Collections. Those wishing to see paintings and other portraits in the Primary Collection not on display, or to consult the records of the collection, should contact the Collections Manager in writing. Normally items not on display can readily be made available for viewing. The Collection is also made widely available via the Portrait Explorer in the IT Gallery, by CD-Rom and on the internet (at [www.npg.org.uk](http://www.npg.org.uk)).

### *Reference Collection*

The Gallery holds its Reference Collection as a national resource; it contains more than 80,000 portraits and forms an image bank of the nation's famous and less famous faces. The range of work held in the Reference Collection complements the Gallery's Primary Collection and contributes to a better understanding of British portraiture generally. It consists of prints mainly, but also includes 2,000 drawings, 60 paintings and 100 sculptures, almost all relatively modest in nature. Examples of preparatory studies and working drawings record the process of making portraits and extensive holdings of engraved reproductions of portraits provide evidence for their distribution and consumption. The Reference Collection is used for study and exhibition, and has been extensively reproduced in books and other publications.

## 7. HERITAGE ASSETS (continued)

### *Photographs Collection*

The Photographs Collection consists of more than 240,000 original photographic images of which at least 130,000 are original negatives. They date from the 1840s to the present day. The collection is divided into two parts; photographic portraits that are subsumed into the Gallery's Primary Collection of portraits, and the remainder which form the Photographs Collection.

More information about the Gallery's collections is available at ([www.npg.org.uk/collections.php](http://www.npg.org.uk/collections.php)).

### *Capitalisation of the Collections*

The capitalised heritage assets reflect a small proportion of the Gallery's collections: only 4% of the Primary Collection and under 1% of the Reference and Photographs Collections. The Gallery has calculated that it would not be cost effective – in terms of expense and staff time - to capitalise all of its collections acquired before 2001 (for the Primary and Photographs Collections) and 2005 (in the case of the Reference Collection). The findings from the Gallery's review into the cost of capitalising all of its collections can be viewed at [www.npg.org.uk/about/corporate/gallery-policies.php](http://www.npg.org.uk/about/corporate/gallery-policies.php).

### *Acquisitions and disposals*

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

### *Conservation*

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

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

### *Collections Management*

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

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

## 8. AVAILABLE FOR SALE FINANCIAL ASSETS - INVESTMENTS

### Fixed asset investments

	Restricted Funds	Unrestricted Funds		2012 £000	2011 £000
	Partners Capital TMP £000	Black Rock (Charinco) £000	CCLA (COIF) £000		
Market value at 1 April 2011	2,100	17	19	2,136	35
Additions	550	-	-	550	2,000
Net gain/(loss) on revaluation	28	1	-	29	101
<b>Market value at 31 March 2012</b>	<b>2,678</b>	<b>18</b>	<b>19</b>	<b>2,715</b>	<b>2,136</b>
<b>Historical cost at 31 March 2012</b>	<b>2,550</b>	<b>13</b>	<b>4</b>	<b>2,567</b>	<b>2,017</b>
Unrealised Investment Gains at 31 March 2012	128	5	15	148	119

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

	2012 £000	2011 £000
Investment assets in the UK	37	36
Investment assets outside the UK	2,678	2,100
	<b>2,715</b>	<b>2,136</b>

### Current asset investments

	Partners Capital		2012 £000	2011 £000
	Restricted Funds Portrait Fund £000	Unrestricted Funds Investment & Contingency Fund £000		
Market value at 1 April 2011	3,582	2,040	5,622	-
Add: Acquisitions at cost	76	1,000	1,076	5,556
Less: disposal proceeds	(550)	-	(550)	-
Investment management charges deducted	(11)	(11)	(22)	-
Gain/(loss) on revaluation	230	196	426	66
<b>Market value at 31 March 2012</b>	<b>3,327</b>	<b>3,225</b>	<b>6,552</b>	<b>5,622</b>
<b>Historical cost at 31 March 2012</b>	<b>3,082</b>	<b>3,000</b>	<b>6,082</b>	<b>5,556</b>
Unrealised Investment Gains at 31 March 2012	245	225	470	66

These investments are being held for the purposes of producing a return, but the Gallery considers that they should remain highly liquid and available to spend within the next 12 months.

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

	2012 £000	2011 £000
Investment assets in the UK	-	350
Investment assets outside the UK	6,552	5,272
	<b>6,552</b>	<b>5,622</b>

## 9. FINANCIAL RISK MANAGEMENT

FRS29 *Financial Instruments: Disclosures* requires entities to provide disclosures which allow users of the accounts to evaluate the significance of financial instruments for the entity's financial position and performance and the nature and extent of risks arising from financial instruments during the period.

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

### Liquidity risk

Approximately 50% 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 at least equivalent in total to three-quarters of the Gallery's average stock levels is held in general funds. As the cash requirements of the Charity are met largely through Grant-in-Aid received from the Department of Culture, Media and Sport, financial instruments play a more limited role in creating risk than would apply to a non-public sector body of a similar size.

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

### Credit risk

The Gallery group is exposed to credit risk of £457,000 of trade debtors – however this risk is not considered significant as major customers are familiar to the Gallery. The Gallery has recovered 99% of trade debtors over the last three years. Bad and doubtful debts are provided for on an individual basis. Write offs in the year for bad debts amounted to nil, (nil also in 2010/11).

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

The Gallery's loan to its trading subsidiary is secured against the assets of the Company. This is mainly in the form of the Company's stock, which has a value of £186,000 and is convertible to cash and therefore reduces the credit risk of this arrangement. The Company had repaid the loan in full by 31 March 2012.

### Interest rate risk

The Gallery draws down its annual Grant-in-Aid allocation according to its monthly cash flow requirements; 78% of the Gallery's financial assets represents cash and investments held for these short term requirements. Of these, 38% earn interest at a floating rate and 62% carry fixed rates of interest. The fixed rate investments consist of investments in UK and overseas government gilts, and corporate and inflation linked bonds. About 22% of the Gallery's financial assets are held in collective investment schemes with assets allocated across a diverse range of asset classes and securities. However, the Gallery has taken a conservative approach to the amount of investment income it can expect from its investments to fund its operations and is therefore not exposed to significant interest rate risk. Asset allocations across all investment portfolios are reviewed regularly and can be adjusted at short notice in response to significant changes in market conditions. Furthermore, the Gallery's budgets are reviewed and updated regularly to take account of fluctuations in interest rates to ensure that operations are not jeopardised in the event of a significant fall in investment income.

### Interest rate profile

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

	Floating rate	Fixed rate	Non-interest bearing	Assets earning equity return	Total	Weighted average interest rate	Weighted average period for which rate is fixed
	£000	£000	£000	£000	£000	%	
At 31 March 2012							
Sterling	3,707	6,054	80	2,678	12,519	3.59	5.22 years
Other	-	-	-	-	-		
	<b>3,707</b>	<b>6,054</b>	<b>80</b>	<b>2,678</b>	<b>12,519</b>		
At 31 March 2011							
Sterling	6,452	2,806	53	2,100	11,411	3.14	3.7 years
Other	-	-	4	-	4		
	<b>6,452</b>	<b>2,806</b>	<b>57</b>	<b>2,100</b>	<b>11,415</b>		

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

## 9. FINANCIAL RISK MANAGEMENT (continued)

### Reconciled to the Balance Sheet

	2012 £000	2011 £000
Fixed Asset Investments	2,715	2,136
Current Asset Investments	6,552	5,622
Cash at Bank	3,252	3,657
<b>Total</b>	<b><u>12,519</u></b>	<b><u>11,415</u></b>

### Foreign currency risk

As the Gallery's policy is to convert foreign currency into sterling on receipt, the Gallery's exposure to foreign currency risk is not significant.

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

If all of the emerging market currencies depreciated against sterling by 10%, the overall impact on the portfolio of investments would be a fall in value of around £137,000. A similar appreciation of emerging market currencies against sterling would result in an appreciation in the value of the portfolio by a similar amount.

## 10. DEBTORS AND PREPAYMENTS

	GROUP		GALLERY	
	2012 £000	2011 £000	2012 £000	2011 £000
a) Debtors falling due within one year				
Trade debtors	457	207	283	126
Less provision for bad debts	(4)	(12)	-	-
	<u>453</u>	<u>195</u>	<u>283</u>	<u>126</u>
Other debtors	223	98	194	92
Prepayments	63	77	62	76
Accrued income	230	210	166	166
Amounts due from the Company	-	-	988	507
	<u>969</u>	<u>580</u>	<u>1,693</u>	<u>967</u>

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

Of the amount due from the Company, £765,167 relates to the distribution under Gift Aid of profits from the Company, and the remaining balance represents the intergroup balance as at 31st March 2012.

	GROUP	
	2012 £000	2011 £000
b) Intra-Government Balances		
Balances with Central Government Bodies	142	186
Balances with Local Authorities	8	22
Balances with Public Corporations and Trading Funds	-	1
Balances with NHS Bodies	-	-
Sub-total Intra-Government Balances	<u>150</u>	<u>209</u>
Balances with Bodies external to Government	<u>819</u>	<u>371</u>
	<u>969</u>	<u>580</u>

This note provides an analysis of the amounts owed to the Group by different groups of public sector bodies and bodies external to government.

## 11. STOCK

	GROUP		GALLERY	
	2012 £000	2011 £000	2012 £000	2011 £000
Goods for resale	307	229	121	88
Work in progress	3	12	3	12
	<u>310</u>	<u>241</u>	<u>124</u>	<u>100</u>

## 12. CURRENT LIABILITIES

### a) Creditors falling due within one year

	GROUP		GALLERY	
	2012 £000	2011 £000	2012 £000	2011 £000
Trade creditors	376	122	367	119
Other creditors	129	122	129	122
Taxation and social security	181	167	181	167
Accrued expenses	815	808	753	773
Deferred income	763	433	763	433
VAT payable	168	32	168	32
Provision for liabilities and charges	10	127	10	127
	<u>2,442</u>	<u>1,811</u>	<u>2,371</u>	<u>1,773</u>

of which creditors for capital expenditure:

	24	15	24	15
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The provision in 2010/11 included an amount of £91,000 for dilapidations relating to the decision to vacate the Merton store.

### b) Creditors falling due after one year

	GROUP		GALLERY	
	2012 £000	2011 £000	2012 £000	2011 £000
Energy efficiency loan	23	45	23	45
	<u>23</u>	<u>45</u>	<u>23</u>	<u>45</u>

The loan is from Salix Finance Ltd from their energy efficiency funding programme to fund energy saving schemes in the public sector. The loan, which was provided in 2010, was for £60,141, is interest free and is repayable over 4 years, to fund the purchase and installation of a Voltage Power Optimisation Unit to help reduce the Gallery's electricity consumption.

### c) Intra-Government Balances

#### Intra-Government Balances falling due within one year

	GROUP	
	2012 £000	2011 £000
Balances with Central Government Bodies	564	317
Balances with Local Authorities	-	45
Balances with Public Corporations and Trading Funds	-	-
Balances with NHS Bodies	-	-
Sub-total Intra-Government Balances	<u>564</u>	<u>362</u>
Balances with Bodies external to Government	<u>1,878</u>	<u>1,449</u>
	<u>2,442</u>	<u>1,811</u>

Intra-Government Balances falling due after one year total £23,000 for both the Group and the Gallery and relate to the loan from Salix Finance Ltd.

This note provides an analysis of the amounts owed by the Group to different groups of public sector bodies and bodies external to government.

### d) Movement on deferred income

	GROUP							Total
	Sponsorship	Theatre Hire, Conferences & Group Tours	Conservation Fees	Exhibition Income & Fees	Registration Fees	Donations	Membership Fees	
Balance as at 1 April	205	2	-	56	69	-	101	433
Amounts released from previous years	(205)	(2)	-	(56)	(69)	-	(101)	(433)
Incoming resources deferred in the current year	215	4	9	182	65	88	200	763
Balance as at 31 March	<u>215</u>	<u>4</u>	<u>9</u>	<u>182</u>	<u>65</u>	<u>88</u>	<u>200</u>	<u>763</u>

The disclosure includes the deferred income related to the Group.

### 13. STATEMENT OF FUNDS

	Note	*Restated Balance at 1 April 2011	Income	Expenses	Net gains/losses	Transfers	Balance at 31 March 2012
		£000	£000	£000	£000	£000	£000
<b>Unrestricted funds</b>	14						
<b>Designated funds:</b>							
Fixed Asset Fund		9,563	324	(1,368)	-	(45)	8,474
Fixed Asset Revaluation Fund		-	-	-	179	-	179
Investment and Contingency Fund		2,874	-	-	-	668	3,542
Portrait Fund		76	1	-	-	-	77
Deferred Projects Fund		675	-	(659)	-	387	403
<b>Total designated funds</b>		<b>13,188</b>	<b>325</b>	<b>(2,027)</b>	<b>179</b>	<b>1,010</b>	<b>12,675</b>
<b>General Funds (Working Capital)</b>	14	250	14,412	(13,391)	197	(1,218)	250
<b>Total unrestricted funds</b>		<b>13,438</b>	<b>14,737</b>	<b>(15,418)</b>	<b>376</b>	<b>(208)</b>	<b>12,925</b>
<b>Restricted funds</b>	15						
Fixed Asset Fund*		27,234	-	(881)	-	45	26,398
Fixed Asset Revaluation Fund*		11,238	-	-	4,010	-	15,248
Capitalised Collection Fund		11,085	402	-	-	486	11,973
Collection Acquisition Revaluation Fund		-	-	-	-	-	-
		49,557	402	(881)	4,010	531	53,619
Portrait Fund		5,702	180	(15)	258	-	6,125
Grants and Donations Fund		799	1,477	(1,022)	-	(323)	931
Dame Helen Gardner Bequest Fund		4	1	-	-	-	5
		6,505	1,658	(1,037)	258	(323)	7,061
<b>Total restricted funds</b>		<b>56,062</b>	<b>2,060</b>	<b>(1,918)</b>	<b>4,268</b>	<b>208</b>	<b>60,680</b>
<b>Total Funds</b>		<b>69,500</b>	<b>16,797</b>	<b>(17,336)</b>	<b>4,644</b>	<b>-</b>	<b>73,605</b>

\*During the year, and in accordance with charities SORP best practice, the Gallery created Fixed Asset Revaluation Reserves in which would be held the unrealised indexation and revaluation increases on the assets in the Restricted and Unrestricted Fixed Asset Funds. The opening balances for 2011/12 have been re-stated to disclose the opening values for the Restricted and Unrestricted Fixed Asset Funds and their associated Fixed Asset Revaluation Funds. The original opening balance for the Restricted Fixed Asset Fund was £38,472,000, which matches the 2010/11 closing balance disclosed in the 2010/11 consolidated annual report and accounts. There was no opening balance for the Unrestricted Fixed Asset Revaluation Fund as at 1 April 2011.

Fair Value Reserve (Investments)	As at 1 April 2011	Unrealised gains/losses under fair value	Realised gains/losses under fair value	As at 31 March 2012	Reserve/Fund excl fair value as at 31 March 2012	Reserve/Fund incl fair value as at 31 March 2012
	<b>Unrestricted</b>					
General Fund	59	186	-	245	5	250
<b>Restricted</b>						
Portrait Fund	126	247	-	373	5,752	6,125

## **14. DESIGNATED FUNDS**

### **FIXED ASSET FUND**

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

### **FIXED ASSET REVALUATION RESERVE**

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

### **INVESTMENT AND CONTINGENCY FUND**

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

### **PORTRAIT FUND**

This fund represented income designated for the development of the Collection (acquisitions and related costs such as conservation and displays, including unrestricted legacies and interest earned).

### **DEFERRED PROJECTS FUND**

This fund represents underspends generated this year which are to be employed in projects next year. The projects include an access control system and funding relating to projects supported by the Lerner Gift. The Fund also includes funding earmarked for future acquisitions. Transfers represent the underspends identified in this year set aside for projects to be undertaken in future years.

### **GENERAL FUND**

General funds need to be sufficient to enable the Gallery to manage its working capital, specifically the cash tied up in stock. The balance of £250,000 in the General Reserve equates in total to at least three-quarters of the average stock levels in the accounts.

## **15. RESTRICTED FUNDS**

### **FIXED ASSET FUND**

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

### **FIXED ASSET REVALUATION RESERVE**

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

### **CAPITALISED COLLECTION FUND**

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

### **PORTRAIT FUND**

This fund represents restricted funds received specifically for the Portrait Fund for the development of the Collection (acquisitions and related costs such as conservation and displays).

### **GRANTS AND DONATIONS FUND**

This fund represents grants and donations given for a specified purpose. Transfers on this occasion represent heritage assets purchased with restricted income transferred to the Capitalised Collection Fund.

### **DAME HELEN GARDNER BEQUEST**

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

## 16. ANALYSIS OF NET ASSETS BETWEEN FUNDS

Fund balances at 31 March 2012 are represented by:

	Unrestricted		Restricted £000	Total
	Designated £000	General £000		
Fixed Assets	8,653	-	41,646	<b>50,299</b>
Heritage Assets	-	-	11,973	<b>11,973</b>
Investments	37	-	2,678	<b>2,715</b>
Current Assets	3,985	2,715	4,383	<b>11,083</b>
Current Liabilities	-	(2,442)	-	<b>(2,442)</b>
Long term Liabilities	-	(23)	-	<b>(23)</b>
<b>Total Net Assets</b>	<b>12,675</b>	<b>250</b>	<b>60,680</b>	<b>73,605</b>

## 17. FINANCIAL COMMITMENTS

As at 31 March 2012 the Gallery had annual commitments under non-cancellable operating leases and other arrangements as follows:

Arrangements which expire:	2012		2011	
	Land and buildings £000	Other Operating Leases £000	Land and buildings £000	Other Operating Leases £000
Less than one year	-	1	11	5
One to two years	-	10	-	4
Two to five years	<b>129</b>	-	-	-

## 18. CAPITAL COMMITMENTS

	2012 £000	2011 £000
Capital expenditure contracted for but not provided in the accounts	<b>13</b>	-
Capital expenditure authorised but not contracted for	<b>541</b>	370

Capital expenditure contracted for but not provided at the year end related to the purchase of a bench and a replacement flagpole. Capital expenditure authorised but not contracted for relates to the planned purchase of a piece of sculpture, a portrait and planned works to the Gallery.

## 19. CASH FLOW INFORMATION

### a) Reconciliation of changes in resources to net cash (outflow)/ inflow from operating activities

	2012	2011
	£000	£000
Net incoming/(outgoing) resources before revaluations	(539)	(2,568)
less: Investment income	(28)	(69)
Donated acquisitions	(173)	(368)
Loss on disposal of fixed assets	26	129
Depreciation	2,225	2,214
(Increase) / Decrease in debtors	(389)	444
(Decrease) / Increase in creditors	269	114
Increase / (Decrease) in deferred income	330	25
Increase/ (Decrease) in stock	(69)	29
<b>Net cash flow from operating activities</b>	<b><u>1,652</u></b>	<b><u>(50)</u></b>

### b) Analysis of Cash Flows

#### Capital expenditure and financial investment

Payments to acquire tangible fixed assets	<u>(1,031)</u>	<u>(661)</u>
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#### Management of liquid resources

Purchase of investments	(1,076)	(7,556)
Investment management charges	22	-
	<u>(1,054)</u>	<u>(7,556)</u>

#### Return on investments and servicing of finance

Interest received	26	67
Investment dividends	2	2
	<u>28</u>	<u>69</u>

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

(Decrease) in cash in period	649	(642)
Cash flow from change in liquid resources	<u>(1,054)</u>	<u>(7,556)</u>
Movement in net funds in the period	(405)	(8,198)
Net funds at 1 April	3,657	11,855
Net funds at 31 March	<u>3,252</u>	<u>3,657</u>

### d) Analysis of net funds

	1 April 2011	Cash flow	31 March
	£000	£000	2012 £000
Cash at bank and in hand	3,657	(405)	3,252
Net funds	<u>3,657</u>	<u>(405)</u>	<u>3,252</u>

**20. TRADING SUBSIDIARY  
NATIONAL PORTRAIT GALLERY COMPANY LIMITED**

The National Portrait Gallery owns the whole of the issued share capital of 1 issued share of £1 nominal value of the National Portrait Gallery Company Limited, a company registered in England and Wales. The Company's principle activities are Retail, Gallery Hire and running the Gallery catering franchise.

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

	2012 £000	2011 £000
<b><u>Profit and loss account</u></b>		
Turnover	2,722	2,056
Cost of sales	(1,014)	(721)
<b>Gross Profit</b>	<u>1,708</u>	<u>1,335</u>
Administrative expenses	(943)	(931)
<b>Trading Profit</b>	<u>765</u>	<u>404</u>
Interest receivable	1	2
Loan interest payable	-	-
<b>Profit on Ordinary Activities Before Taxation</b>	<u>766</u>	<u>406</u>
Taxation	-	-
<b>Profit on Ordinary Activities After Taxation</b>	<u><u>766</u></u>	<u><u>406</u></u>
<b><u>Balance sheet</u></b>		
Tangible fixed assets	-	-
Current assets	1,057	544
Creditors	(291)	(138)
Payment under Gift Aid to Gallery	(766)	(406)
<b>Net assets</b>	<u>-</u>	<u>-</u>
<b>Share capital and reserves</b>	<u><u>-</u></u>	<u><u>-</u></u>

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

	2012 £000	2011 £000
Turnover	2,722	2,056
Intra group transactions	-	-
<b>Trading income included within SOFA</b>	<u>2,722</u>	<u>2,056</u>
Cost of sales	(1,014)	(721)
Administrative expenses	(943)	(931)
Taxation	-	-
Intragroup transactions	1,441	1,193
<b>Trading costs included within SOFA</b>	<u>(516)</u>	<u>(459)</u>
Interest receivable	1	2
<b>Included in investment income per SOFA</b>	<u><u>1</u></u>	<u><u>2</u></u>

## 21. CONTINGENT LIABILITIES

There were no material contingent liabilities as at 31 March 2012.

## 22. POST BALANCE SHEET EVENTS

The financial statements were authorised for issue by the Accounting Officer and Board of Trustees on the date of the audit certificate. Professor Sir David Cannadine, at the Trustees meeting held on 23 February 2012, announced that he would be stepping down and that his last meeting as Chairman would be 28 June 2012. At the Trustees meeting held on 17 May 2012, the Trustees elected Sir William Proby as the next Chairman of the Board of Trustees of the National Portrait Gallery, to follow on from Professor Sir David Cannadine. On 11 May 2012, the Director announced that in recognition of the success of the *Lucian Freud Portraits* exhibition, the Gallery would be making a one off non-consolidated bonus payment of £240 to all staff that were in post on 31 December 2011. The cost of the bonus award amounted to £77,000, and would be paid in June 2012. The Gallery signed a 25 year lease with the National Gallery, with effect from 1 April 2012, for the lease of parts of the East Wing held under a 5 year lease as at the balance sheet date. There were no other significant post balance sheet events.

## 23. 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 transactions (greater than £500) with the Department and with other entities for which the Department is regarded as the parent Department as follows: British Broadcasting Corporation (BBC), British Library, British Museum, Channel Four Television Corporation, Historic Royal Palaces, National Gallery, Tate Gallery, Imperial War Museum and the Victoria & Albert Museum. The Gallery has a ten year licence agreed with Tate for the provision of storage for the Gallery's collections.

### Other Related Party Transactions

Organisations in which Trustees or key members of management (or their connected persons) have an interest are also regarded as related parties. During the year, the Gallery entered into the following transactions, under normal business terms, with the following organisations in which either a Trustee or a member of management was regarded as having an interest:

<u>Trustee</u>	<u>Related party</u>	<u>Position held at related party</u>	<u>Transaction and balance details</u>
Professor Sir David Cannadine	Dean & Chapter, Westminster Abbey	Vice Chairman, Fabric Advisory Committee	£41 in purchases for reproduction fees and display costs. Nil balance at year end.
Lord Janvrin	HSBC	Deputy Chairman	£11,160 of sales for corporate hire, and £7,500 paid at a fundraising event. Nil balance at year end.
Lord Janvrin	Manchester Art Gallery	Close family member employed at Manchester Art Gallery	£600 of sales relating to a loan of an NPG portrait. Nil balance at year end.
Dame Amelia Fawcett	London Business School	Governor	£735 of sales related to a Gallery leadership tour. Nil balance at year end.
David Ross	David Ross Foundation	Trustee	£20,000 purchase of a Testino Box set. Nil balance at year end.
David Ross	Talk Talk Telecom Group plc	Shareholder	£218 in purchases for telecomms services. Nil balance at year end.
Sir Nicholas Grimshaw	Royal Academy of Arts	Trustee	£741 of sales for NPG catalogues. Nil balance at year end.

### Independent Members (Investment Committee)

Anthony Brooke	University of Sussex	Close family member is the Treasurer of the University	£18,476 payment of research costs of the University for National Programmes project. Nil balance at year end.
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### Gallery Management

Sandy Nairne CBE	Courtauld Institute of Art	Close family member employed at the Courtauld	£27,429 of purchases for partner research costs for <i>Making Art in Tudor Britain</i> project. Nil balance at year end.
Peter Funnell	British Academy	Member of Pictures Portraits and Decorations Committee	£2,055 of purchases for venue hire. £38 balance at year end.
Sarah Moir	Rocket Food Company	Close family member is director of company	£14,704 of purchases for events catering. £6,063 of sales for venue hire for events. Nil balance at year end.
Rebecca Hossain	Merrill Lynch	Close family member is director of company	£310,360 of sales in relation to sponsorship and event hire. £7,500 balance at year end.

**Trustees:** Dame Amelia Fawcett became a Life-Patron in 2009/10, purchased a gift Associate Membership for £250. The Marchioness of Douro was a Patron during the year (paying a subscription of £200 and giving a £1,050 donation). David Ross made a donation to the Gallery of £80,000 and the David Ross Foundation made a donation of £5,500. He also purchased a table at the *Lucian Freud Portraits* fundraising dinner for £7,500. Marina Warner made a £256 contribution towards the conservation of the Anne Boleyn portrait.

**Independent Members:** Jeremy Sillem - an independent member of the Investment Committee - is a shareholder with Partners Capital LLP. Partners Capital LLP are the Gallery's investment advisors with £9.2 million of the Gallery's reserves under management.

**Staff:** Terence Pepper (the Gallery's Curator of Photographs) donated 105 photographs with an aggregated value of £2,650 to the Gallery's photographic collection.



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