

MUSEUMS AND GALLERIES ACT 1992

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

The Board of Trustees of the Tate Gallery Annual Accounts 2005-2006

ORDERED BY THE HOUSE OF COMMONS TO BE PRINTED 20th JULY 2006

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Trustees and Advisers

The principal address for the Board of Trustees of the Tate Gallery is:

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SW1P 4RG

Auditors

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

Subsidiaries:
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Grant Thornton House
Melton Street
Euston Square
London NW1 2EP

Bankers and investment managers

Coutts & Co
St Martin's Office
440 Strand
London
WC2R 0QS

Solicitors

Bates, Wells & Braithwaite
Cheapside House
123 Cheapside
London
EC2V 6BB

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1 Silk Street
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Annual Report

Aim and objectives

Tate's mission, drawn from the 1992 Museums and Galleries Act, is to increase public knowledge, understanding and appreciation of British art from the sixteenth century to the present day and of international modern and contemporary art. Guided by this mission, seven principal aims were set for the period 2005-06, which were to:

- strengthen Tate's Collection and secure its future, while making it accessible and improving understanding of it;
- advance the position of the four galleries: Tate Britain, Tate Modern, Tate Liverpool and Tate St Ives, in particular using such opportunities as the European Capital of Culture in 2008;
- develop programmes which reach audiences beyond the galleries through national and international partnerships, new interpretation and education strands and Tate Online;
- understand Tate's audiences better, broaden their socio-economic and ethnic mix and improve the quality of the visitor experience;
- enable everyone working at Tate to develop their potential within a culture which promotes equality, respects diversity and values the contribution that all employees make to Tate's success, while ensuring that they have the right systems and tools to support them;
- improve Tate's relationships with its many friends, advocates, supporters and advisors, using the museum's profile to achieve greater impact for its activities and further contribution of the visual arts to life in Britain;
- secure enough money to support Tate's ambitions, combining entrepreneurial flair with strong financial management to ensure maximum value is gained from each public and private pound earned.

Review of activities in 2005-06

Progress was made in relation to each of these aims in 2005-06.

Collections

A major acquisition in 2005-06 was the iconic *Colonel Acland and Lord Sydney: The Archers* by Sir Joshua Reynolds, acquired with the assistance of the National Heritage Memorial Fund, the Art Fund, Tate Members and other donors. Other major acquisitions included Michelangelo Pistoletto's *Venus of the Rags*, Francis Picabia's *Otaiti* and several works by Rodney Graham. Tate also accepted a number of works allocated by the Government in lieu of inheritance tax, including *Maquette for The Unknown Political Prisoner* by Dame Barbara Hepworth.

Research has continued into expanding the geographical reach of the Collection and an Asia-Pacific Advisory Committee has been formed. A range of new research projects has been launched or further developed; these include Anoxic Framing and Multi-Encode (a European Union project to develop the use of laser techniques for the examination of works of art and the Sculpture Replication Project which will look at the practical and ethical dimensions of replicating deteriorating or lost sculptures). In general, progress was made on a wide range of other research projects and research-led activities including exhibitions, the writing of interpretative texts and scholarly publications and the conservation and treatment of art works.

In January 2006, Tate was also awarded 'Academic Analogue' status by the Arts and Humanities Research Council, meaning that Tate will be able in future to compete alongside universities for AHRC research funding in its own right.

Tate Britain, Tate Modern, Tate Liverpool and Tate St Ives

The programme of Collection displays, exhibitions and other public events in 2005-06 included, amongst others: *Frida Kahlo, Jeff Wall and Henri Rousseau: Jungles in Paris* at Tate Modern; *Turner Whistler Monet, A Picture of Britain, Degas, Sickert and Toulouse Lautrec – London and Paris 1870-1910* at Tate Britain; *Summer of Love: Art of the Psychedelic Era* and *Sarah Lucas* at Tate Liverpool; *Richard Deacon and Tacita Dean* at Tate St. Ives. At Tate Modern, staff focused on the preparation for the complete re-hang of the Collection, which opened in May 2006. New acquisitions are featured more prominently in both the Tate Modern and Tate Britain displays, including rooms dedicated to Lawrence Weiner and Chris Ofili.

Tate's education programmes attracted over 619,000 learners across the four sites during the period 2005-06. The team's efforts and hard work were recognised: among many other awards, the Open Tate Community Programme received a High Commendation for Most Innovative Learning Resource at the Skills and Care National Awards, and the Big and Small family learning programme at Tate Britain won a Sure Start Partners in Excellence Award in partnership with South Westminster Sure Start Children's Centre.

Plans were laid to enable the sites to respond to longer term opportunities. At Tate Britain, an architectural consultant was appointed to develop a plan to improve front of house facilities; architects will be appointed later in 2006. At Tate Modern, work continued envisaging a second phase development including the award of £7 million grant from the London Development Agency to enable the derelict oil tanks and switch house to be brought into public use, once vacated by EDF Energy, while at Tate St Ives wide consultation was undertaken on a project to improve the gallery facilities there. Intensive work took place at Tate Liverpool to ensure that the gallery could play a key role in the delivery of a successful Capital of Culture 2008.

Beyond Tate

Seventeen of Tate's exhibitions conceived in 2005-06 showed in different venues in the UK and abroad. A Head of National Initiatives was appointed who set to work immediately on the development of a National Strategy for Tate, embracing all Tate's work within the UK beyond the four Tate galleries.

Meanwhile, Tate Online consolidated its offering as an interactive platform offering access to art for all. Additions to the site included a dynamic calendar, increased multi-media content, a number of initiatives soliciting visitor contributions and the latest series of net art works, co-commissioned with the Whitney Museum of American Art. BT renewed its sponsorship of Tate Online for a third term, while i-Map, Tate's site for the visually impaired, was updated and won the JODI award 2006 for web accessibility.

The reach of Tate's exhibition programme was extended through publishing exhibition catalogues, distributed world-wide. The highlight was the television tie-in *A Picture of Britain*, which was for four weeks top of the hardback bestseller list. Combined with other successful titles, this brought Tate Enterprises to the second largest share of the UK art book market in 2005.

Audiences

By the end of the financial year 2005-06, Tate had recorded more than 14.8 million visitors to its programmes: 6.4 million at the four Tate galleries and 8.4 million unique visitors to Tate Online. Tate exhibitions have also toured nationally and internationally. At the foundation of this achievement was a public programme of breadth, texture and authority, described above, which was delivered on a balanced budget to great critical and public acclaim.

Effort was made to improve the range of programmes offered to visitors. The evening performance event at Tate Britain, *Late at Tate*, saw audiences of up to 5,000 per night, while the programme of events for young people, *BP Saturdays*, attracted significant numbers of local families with young children. The team at Tate Modern continued to build on the success of the youth project there, *Raw Canvas*, and many more adult community groups enjoyed the artist-led, tailor-made introductions to art with the *Art into Life* programme. Tate Liverpool was involved in a unique partnership with Rolls-Royce, while at St Ives, *Super Sundays* was introduced in partnership with local schools and the Sure Start agency.

A cross-Tate Diversity Group was formed to review Tate's performance to date across the range of its activities. In response to this, a strategy for the future was drawn up and discussed widely across the organisation.

People, systems and ways of working

Plans were formulated for the development of management and leadership capability within Tate for the future and for contributing to the implementation of Tate's Diversity Strategy. Further improvements were made to the Performance and Development planning process and preparation was made for a full staff survey.

Significant progress was made in the continuing development of Tate's systems and processes. Enhancements were made to The Museum System, the database supporting the Collection, Tate Online and Tate's diary management system. Planning was undertaken for the implementation of two new systems: a relationship management system and a new human resources and payroll system.

Meanwhile, and in response to the impact of Tate's recent increase in activities, a series of consolidation exercises took place in the areas related to service delivery for the London sites.

Partnerships and relationships with advisors and supporters

Commitment to Tate from the business sector remained strong with this period seeing the welcome continuation of a number of major sponsorships for Tate, as well as the introduction of important new sponsors and Corporate Members in London and Liverpool. A highlight was BT and Tate Online winning the Sponsorship Continuity category at the 2005 Hollis Sponsorship Awards.

Membership numbers reached 74,000 at the year end (67,000 in March 2005); the renewal rate rose from just under 70% to near 80% and the percentage consenting to Gift Aid from 56% to 62%. Donations to Tate from Tate Members supported a number of additions to the Collection as well as the public programme at all four sites.

Tate continued to enjoy the support of many individuals, trusts and foundations and public sector bodies. Donations received enabled Tate both to acquire and to conserve a wide range of works for the Collection and enabled a wide range of projects including, among many others, the cataloguing of the John Piper Archive.

Two new Trustees were recruited to the Board of Trustees: Professor Dawn Ades retired on 12 April 2005 and was replaced by Patricia Lankester, while Chris Ofili retired on 21 November 2005 and was replaced by Anish Kapoor.

Money

Effective Tate, a project to review the effectiveness of Tate's business processes and to explore ways in which resources could be released and further income generated, continued throughout the year. This project was a response to the climate of constrained grant and rising cost pressure and also responded directly to the Government's Efficiency Agenda.

As well as its success in attracting sponsorships and donations, Tate continued to supplement Grant in Aid through earned income. At the sites, retail sales were boosted by popular exhibitions; *Frida Kahlo* at Tate Modern and *Turner Whistler Monet* at Tate Britain were particularly successful. Sales of merchandise made for Tate increased, in part as a consequence of collaborations with designers such as Orla Kiely and Ally Cappelino. Art on Demand kiosks opened in both London sites during 2005, enabling visitors to source prints not readily available in mass produced form; this was also launched online, doubling internet sales.

Tate Catering expanded its business to supply the catering provision to the Fitzwilliam Museum, Cambridge and the Ice Café at Somerset House, while consolidating core activity across the London sites.

The success of the exhibition programme both in terms of income generation and popular appeal was particularly welcome given the impact on visits to London of the 7 July 2005 bombings.

Performance indicators

Targets agreed with the Department for Culture, Media and Sport as part of the annual funding agreement process were achieved as follows:

Performance Indicator	Target	Actual
Funding agreement targets		
Number of actual visits (000's)	6,000	6,412
Number of unique users visiting the website (000's)	6,000	8,406
Number of adult UK visitors (aged 16 and over) from NS-SEC socio-economic groups 5-8 attending the gallery (000's)	619	691
Number of children aged 15 and under visiting the gallery (000's)	840	930
Number of children aged 15 and under in on- and off-site organised educational sessions (000's)	220	219
Net self-generated income	10,500	11,803
Efficiency savings	1,575	1,545

Financial Review

The Consolidated Statement of Financial Activities on pages 20 and 21 shows total incoming resources of £97,621,000 (£88,819,000 in 2004-05). Of this amount £11,923,000 (£9,927,000 in 2004-05) was applied to the ongoing capital programme and £13,455,000 (£11,598,000 in 2004-05) to Collection acquisitions. Of the remaining £72,243,000 (£67,294,000 in 2004-05), £71,964,000 (£65,349,000 in 2004-05) was used to fund ongoing operations in the year, with the remaining £279,000 (£1,945,000 in 2004-05) taken to general funds.

Tate received £31,799,000 of Grant in Aid from Parliament (£29,881,000 in 2004-05), provided through the Department for Culture, Media and Sport. Tate continues to supplement this grant from other sources and self-generated income from trading, admissions and fundraising amounting to £65,822,000 for the year (£58,938,000 in 2004-05).

Resources expended include the costs of generating voluntary income, trading and other costs, investment management costs, costs of charitable activities and governance costs.

Over the past year, Tate has added works of art valued at £13,332,000 to the Collection (£8,983,000 in 2004-05). Of this figure, £5,975,000 has been donated by individuals either directly or in lieu of tax (£4,231,000 in 2004-05). Funding for purchased works of art has come from many sources, including the Lottery, Tate Members, Tate Patrons and self-generated income.

Foreword

Introduction

Presentation of the financial statements

The accounts have been prepared in accordance with the Statement of Recommended Practice (the SORP) "Accounting and Reporting by Charities" (revised 2005) and in compliance with the Accounts Directions issued by the Secretary of State for Culture, Media and Sport. As a result of the revised SORP prior year comparatives have been restated where applicable.

The Consolidated Statement of Financial Activities set out on pages 20 and 21 has been prepared in line with the SORP and shows incoming resources including income relating to capital projects.

History of body, statutory background, organisation and structure

History

The Tate Gallery was founded at Millbank London in 1897. Although officially known as The National Gallery of British Art, it was commonly called the Tate Gallery after Henry Tate, with its name finally being officially changed in 1932. During the early and mid twentieth century the original building at Millbank was added to as Tate's Collection grew and expanded to include modern works.

The last two decades of the twentieth century saw considerable expansion of Tate with the Clore Gallery, housing the Turner collection opening in 1987 and Tate Liverpool opening the following year. Tate St Ives opened in 1993 and in March 2000 the Tate Gallery Millbank site was rededicated as Tate Britain. Tate Modern opened to the public in May 2000.

Background

From its foundation in 1897 until 1917, the Board of Trustees of the National Gallery administered the Tate Gallery. A separate Board of Trustees for the Tate Gallery was first established by Treasury Minute of 24 March 1917, although all works of art remained vested in the Trustees of the National Gallery, whose Director remained responsible for the financial affairs of the Tate Gallery.

The Tate Gallery was established as an independent institution by the National Gallery and Tate Gallery Act, 1954. A new Treasury Minute of 5 February 1955 defined the scope of the Tate Gallery Collection and vested in its Board of Trustees the responsibility for the Collection and for the management of the Gallery.

The Museums and Galleries Act, 1992, which repealed the 1954 Act, established the Board of Trustees of the Tate Gallery as a corporate body and added it to the list of exempt charities under the 1960 Charities Act. An Order in Council enabling the new Act was issued on 1 September 1992.

In March 2000 the Trustees launched a new organisational identity, re-branding the Tate Gallery as Tate. For statutory purposes the corporate body remains the Board of Trustees of the Tate Gallery.

Connected charities

Tate Members: founded in 1958 as The Friends of the Tate Gallery to raise money for the purchase of works of art for the Gallery, to support the work of Tate and to recruit members, thereby promoting the work of Tate to the general public. The Tate Members Council meets regularly to allocate its funds to Tate acquisitions and exhibitions and special projects on behalf of all Tate Members.

Tate Foundation: created in 2000 to further the charitable purposes of the Board of Trustees of the Tate Gallery through active fundraising, investment and membership schemes.

During the year Tate Foundation made donations to Tate of £1,076,762 (£778,846 in 2004-05). The balance of funds held by Tate Foundation at 31 March 2006 was £9,877,617 (£8,679,814 in 2004-05).

Organisation and structure

Tate's Board comprises twelve members, at least three of whom are practising artists and one is appointed by the National Gallery Board of Trustees from among members of that Board; the remainder are appointed by the Prime Minister. Trustees are usually appointed for four years and may be reappointed for a further term (though it is current convention that artists serve only one term). Trustees elect a Chairman from among their number.

The 1992 Museums and Galleries Act defines the establishment, constitution, functions and property of the Board of Trustees. On a day-to-day basis, the Board's responsibilities can be summarised as to:

- determine policy;
- establish the overall strategic direction of Tate within the policy and resource framework;
- decide on major acquisitions and major resource issues such as new buildings;
- supervise the management of Tate by acting as guardians of the public interest;
- oversee the delivery of planned results by monitoring performance against objectives and targets; and
- use the combined expertise of members to advise the Director.

The Board is advised by a number of formal sub-committees, whose members comprise both Trustees and non-Trustees.

Trustees serving in the period 2005-06 were:

Professor Dawn Ades (retired 12 April 2005)
Helen Alexander
Victoria Barnsley
Melanie Clore
Sir Howard Davies
Anish Kapoor (appointed 22 November 2005)
Patricia Lankester (appointed 13 April 2005)
Professor Jennifer Latto
Paul Myners (Chairman)
Chris Ofili (retired 21 November 2005)
Julian Opie
Fiona Rae
Jon Snow
John J Studzinski

The Tate Director, currently Sir Nicholas Serota, is appointed by the Board of Trustees with the approval of the Prime Minister. He is Tate's Accounting Officer and is responsible to the Board for the general exercise of the Board's functions. The Director's Group assists the Director in the discharge of these responsibilities.

At 31 March 2006 the Director's Group comprised:

Sir Nicholas Serota, Director
Alex Beard, Deputy Director
Stephen Deuchar, Director, Tate Britain
Will Gompertz, Director, Communications
Brian Gray, Director, Operations
Anna Jobson, Head of Policy and Planning
Andrea Nixon, Director, Development
Vicente Todolí, Director, Tate Modern
Sian Williams, Director, Finance and Resources

Conflicts of interests

The Board of Trustees is required to follow the principles established by the Nolan Committee in the conduct of public bodies. This includes the declaration of individual Trustees' interests. A Register of Interests is kept to identify any potential conflicts of interest between Trustees' private, professional, political and business activities (including those of close family and household members) and those of Tate. This is available on Tate Online and by written request.

Sir Nicholas Serota is also a commissioner for CABE (Commission for Architecture and the Built Environment) and a director of Tate Foundation.

The display of *The Upper Room* by Chris Ofili (acquired in 2004-05) led to considerable comment in the press about the principle of acquiring works of art from serving artist Trustees. The Charity Commission has undertaken a review of the specifics of this case and the four other acquisitions of works of art from serving Trustees made since 1992 and they have concluded that the acquisitions are beneficial in the interests of Tate. The Commission's authority will be sought for any future such transactions. The Trustees have also taken the opportunity to improve procedures for identifying and handling conflicts of interest.

Recruitment, appointment and induction of Trustees

Tate Trustees are appointed on the basis of the Code of Practice for ministerial appointments to public bodies, guidance for departments on adopting best practice in appointment procedures.

Trustee vacancies are advertised externally in the media and on Tate Online in order to reach as diverse an audience as possible. All applicants are required to complete an application form and each application is then assessed against set criteria; a short list of candidates is invited to interview. The key stages of the appointment are overseen by a panel, which will normally include the Director, the Chairman of the Board of Trustees and an independent assessor who is appointed by the Department for Culture, Media and Sport (DCMS), who makes a recommendation to the Secretary of State. The Minister's recommendation is then considered by the Prime Minister, who makes and announces the appointment.

On appointment, Trustees are provided with a handbook for Tate Trustees and invited to attend an induction which covers roles and responsibilities of the Board, the statutory framework surrounding Tate, processes for managing conflicts of interests and information about Tate. Training is also offered to Trustees, depending on need and experience.

Review of activities in 2005-06

A full review of activities is contained in the Annual Report on page 3.

Future Developments

Tate's mission is to increase public knowledge, understanding and appreciation of British, modern and contemporary art, and the seven principal aims contained in the Annual Report on page 3 remain valid for the period 2006-07. However, the next five years present Tate with a number of major opportunities, both externally and within the organisation. In consequence, during the next financial year, as well as consolidating its position, Tate will prepare for a period of development in several areas, as follows:

- the galleries: submitting a planning application for a new extension at Tate Modern; consulting with the local community on the development of Tate St Ives; developing proposals for the refurbishment and improvement of the pre-war buildings at Tate Britain; improving the welcome and public facilities at Tate Liverpool and developing a Collection Centre;
- diversity and audience development: implementing the strategy described in the Annual Report;
- development of Tate's national role: developing a National Strategy as a framework for the many projects already working at the national level and others under development;
- management of people and resources: building on the Performance and Development Planning work done so far, especially in relation to the skills we require from managers at Tate and articulating a people strategy for Tate;
- relationship management and working in partnership: improving relationship management across the organisation as a precondition to realising the ambitious fundraising targets;
- money: continuing to seek efficiency savings and to ensure continuous improvement in Tate's systems and processes.

Realising this depends on the professionalism, hard work, commitment and creative energy of everyone who works for Tate, many of whom are recognised as exceptional in their field.

Employee involvement and disabled persons

Tate is an Equal Opportunity Employer and has agreed statements of policy under section 2(3) of the Health and Safety at Work Act, 1974. As a non-departmental public body, Tate follows policy issued by the Cabinet Office on the employment of disabled people.

In summary, Tate is committed to equal opportunities for all its employees and potential employees, including people with disabilities, and applies its equal opportunities policy to recruitment and selection, training and development and promotion. It has a positive attitude towards employing disabled people and is committed to considering applicants solely on the basis of ability to do the job. Tate will give consideration, as far as practicable, to making training, equipment and other facilities available in order to assist employees or potential employees with disabilities to become fully effective in their employment at Tate.

Directors achieve communications with their staff through: a Tate Staff Council, comprising elected employee representatives, union representatives and management; Health and Safety Committees; divisional briefings; departmental meetings; informal meetings; the Tate Intranet.

Pay negotiations are conducted through a Tate Negotiating Committee at which the three unions – FDA, PCS and Prospect – represent staff interests at a single table.

Results for the year and financial position

The Consolidated Statement of Financial Activities on pages 20 and 21 shows total incoming resources of £97,621,000 (£88,819,000 in 2004-05). Of this amount £11,923,000 (£9,927,000 in 2004-05) was applied to the ongoing capital programme and £13,455,000 (£11,598,000 in 2004-05) to Collection acquisitions. Of the remaining £72,243,000 (£67,294,000 in 2004-05), £71,964,000 (£65,349,000 in 2004-05) was used to fund ongoing operations in the year, with the remaining £279,000 (£1,945,000 in 2004-05) taken to general funds.

Funds carried forward of £447,537,000 (£411,251,000 in 2004-05) can be analysed as follows:

	2006	2005
	£000	£000
Capital reserves	245,315	244,305
Works of art reserves	57,739	44,479
Revaluation reserve	111,684	92,635
Other restricted reserves	752	848
Designated reserves	20,782	18,047
Endowments	407	354
General funds	10,858	10,583
	<u>447,537</u>	<u>411,251</u>

For more details, please refer to Note 13.

Fixed assets

Tate has property holdings in London, Liverpool and St Ives.

The freeholds of the gallery and land at Millbank, London and the Barbara Hepworth Museum at St Ives, were transferred from the Secretary of State for the Environment to the Board of Trustees of the Tate Gallery on 14 December 1994. The Trustees hold the property on the Liverpool site on a long lease. Tate St Ives was constructed for and is owned by Cornwall County Council; the Board of Trustees of the Tate Gallery manages the gallery on behalf of Cornwall County Council. Tate Modern is held under a finance lease entered into in October 1998, the principal elements of which are described in note 17 to the accounts. The Trustees purchased the freehold of the Collection Store at Southwark on 31 March 1999.

Additions to fixed assets during the year of £19,468,000 (£12,652,000 in 2004-05) comprise: £13,332,000 of works of art; £4,342,000 in relation to buildings and leasehold improvements; £1,794,000 on plant and fit-out and other assets. Works of art include items donated, bequeathed or given in lieu of tax to Tate with an approximate value of £5,975,000 (£4,231,000 in 2004-05). All works of art acquired during the year have been capitalised in accordance with the HM Treasury Financial Reporting Manual, as detailed in note 8.

In accordance with Treasury requirements, assets are stated at current cost in the accounts and indexed annually, using indices supplied by HM Treasury, when no formal revaluation is undertaken. Works of art are excluded from this requirement. A revaluation of the Trustees' property holdings was undertaken at 31 March 2004 by Drivers Jonas, a firm of independent property consultants. The revaluation was in accordance with the Royal Institution of Chartered Surveyors' "new Red Book", RICS Appraisal and Valuation Standards; this results in a revaluation reserve which currently amounts to £111,684,000.

Tate Modern is held under a finance lease and, in accordance with the HM Treasury Financial Reporting Manual, the asset is revalued annually based on the present value of Tate's current obligations under the lease; this equates to the commutation value of £133,698,000.

In March 2006 Tate was awarded a £7 million grant from the London Development Agency to facilitate the surrender by EDF Energy of the western half of the switch station to the south of Tate Modern, following its upgrade and replanting. This will enable Tate to bring the site of the derelict and unoccupied oil tanks, together with the western end of the switch house, into public use. Herzog and de Meuron have been appointed to develop a design for a new building in this location with the objective to improve and extend visitor education and gallery facilities.

Subsidiary undertakings

The results of Tate's trading subsidiary are summarised in Note 9 to the financial statements, together with other consolidated companies.

Collection fund

In 1995, following the theft of two works by JMW Turner while on display in Germany, Tate received £24,000,000 of insurance proceeds.

In February 1999 the Trustees took the view that stolen works do normally reappear and therefore purchased title to the stolen paintings from the insurers at a price significantly below the original £24,000,000 of proceeds. The purchase guaranteed that the works would be restored to the Turner Bequest should they re-emerge.

In December 2002, the paintings were restored to the Turner Bequest. During 2004-05 the Charity Commission agreed that the remaining funds were available for the general purposes of Tate and that Tate Trustees were free to use the funds for the benefit of the Collection as a whole.

The Trustees have taken the decision to designate the funds as the Collection Fund. On designation £10,000,000 was earmarked as a capital sum, the income from which will be used to purchase works of art to enhance the Collection. The balance of the fund will benefit the long-term care of the Collection including research, conservation, and improving access to Tate's Collection Store in Southwark.

Payment of creditors

Tate adheres to the Government-wide standard on the payment of creditors by aiming to settle all bills within 30 days or in accordance with the suppliers' terms of business. In 2005-06 38% (64% in 2004-05) of invoices were settled in 30 days or less. Action has been taken to ensure the improvement of this statistic.

Reserves policy

Tate maintains reserves to provide for unforeseen expenditure and to provide working capital. Tate aims to maintain the real value of its general reserves, which are currently £10,858,000. All other reserves are maintained at a level appropriate for their intended purpose. The Trustees periodically review both the policy and level of reserves to assess their adequacy.

Investments

The Trustees' investment policy is governed by the Trustees Act 2000 and its objective is to sustain fund growth at a level equal to or above inflation using a 'medium risk' investment strategy and generating an annual real rate of return of 3%. This objective is achieved by investing through third party investment managers, who advise on the investment strategy required to meet the objective. Restricted funds and permanent endowments have been invested in accordance with the Trustees' investment policy. During the year the investments generated a return of 16%. The investment policy is reviewed on an annual basis.

Auditors

Tate's principal auditor is the Comptroller and Auditor General. The audit fee for the year ended 31 March 2006 is £32,600.

Post balance sheet events

There are no material post balance sheet events.

Sir Nicholas Serota
Director, Tate

Paul Myners
Chairman, Tate

July 2006

Remuneration Report

Membership

The Trustee members of the Finance and Operations Committee act as the Remuneration Committee of the Board, advising on contractual terms and remuneration for the Director, Deputy Director and Divisional Directors on an annual basis. The members during the year were Helen Alexander, Victoria Barnsley, Sir Howard Davies and Paul Myners.

Policy on the remuneration of senior managers

Annual pay increases for those members of staff who come under the scope of the Committee are determined on the basis of an assessment of performance against agreed objectives and with reference to internal and external market comparisons.

All senior employees are members of the Civil Service Pension Scheme (CSPS) with associated redundancy and retirement conditions.

Policy on duration of contracts, notice periods and termination payments

Senior staff are permanent employees of Tate, apart from the Director who is on a fixed term contract expiring on 31 August 2009. Notice periods for senior employees are three or six months; for the Director, six months. Termination payments are in accordance with Tate contractual terms.

Director

The Director, Sir Nicholas Serota's total remuneration in 2005-06 including pension contributions amounted to £191,039, comprising £143,157 salary, £12,665 bonus and £35,217 pension contribution (£174,524 in 2004-05, comprising £136,822 salary, £12,390 bonus and £25,312 pension contributions).

The Director's current service contract commenced on 1 September 2002 and expires on 31 August 2009.

Director's pension disclosure	2006	2005
	£	£
Real increase in pension	2,594	2,006
Real increase in lump sum	7,781	6,017
Pension at 31 March	45,379	41,660
Lump sum at 31 March	136,136	124,981
Cash equivalent transfer value at 31 March	1,116,000	897,000
Employee contributions and transfers-in	2,052	2,052
Real increase in cash equivalent transfer value as funded by employer	60,000	35,000

A Cash Equivalent Transfer Value (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 members' 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 scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures, and from 2003-04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the CSPS arrangements and for which the CS Vote has received a transfer payment commensurate to the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Please note that the factors used to calculate the CETV were revised on 1 April 2005 on the advice of the Scheme Actuary. The CETV figure for 31 March 2005 has been restated using the new factors so that it is calculated on the same basis as the CETV figure for 31 March 2006.

The real increase in CETV reflects the increase effectively funded by the employer. It takes account of 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,

As the Trustees and the Director exercise ultimate responsibility and authority for controlling the major activities of the entity, Tate has determined that additional disclosure of emoluments and pension entitlements is inappropriate.

The Board of Trustees of the Tate Gallery, who hold overall responsibility for Tate, are not remunerated. Expenses paid are disclosed in note 6 to the accounts.

Signed on behalf of the Board of Trustees of the Tate Gallery

Sir Nicholas Serota
Director, Tate

Paul Myners
Chairman, Tate

July 2006

Statement of Trustees' and Director's Responsibilities

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

In preparing the Tate accounts the Board of Trustees is required to:

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

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

In so far as the Trustees are aware:

- there is no relevant audit information of which the charity's auditors are unaware; and
- the Trustees have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Sir Nicholas Serota
Director, Tate

Paul Myners
Chairman, Tate

July 2006

* a copy of which is available from: The Accounting Officer, Tate, Millbank, London, SW1P 4RG

Statement on Internal Control

1. Scope of responsibility

The Accounting Officer and Trustees have responsibility for maintaining a sound system of internal control that supports the achievement of Tate's policies, aims and objectives, under the authority of the Board of Trustees, whilst safeguarding the public funds and assets for which the Accounting Officer is personally responsible, in accordance with the responsibilities prescribed in Government Accounting and ensuring compliance with the requirements of the Financial Memorandum.

2. The purpose of the system of internal control

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

3. Capacity to handle risk

Risk management is implicit in Tate systems and procedures. Risk is regularly considered and discussed at Director's Group meetings and appropriate action taken as necessary. Risk is discussed and reviewed by the Audit Committee, an advisory body consisting of three Trustees and two co-opted members, which met three times in the year. Risk is also regularly discussed and acted upon where necessary at a department head level.

4. The risk environment

The most significant risks facing Tate, as detailed in the risk register fall under four headings: financial, operational, regulatory and external. Measures have been put in place to mitigate these risks. The management of risk is embedded in policymaking, planning and delivery.

In Tate the main processes in place for identifying, evaluating, and managing risk are:

- To ensure that risk identification is an integral part of the annual planning and budgeting process with risks linked to objectives
- The forward plan, including the most significant risks, is reviewed and approved by the Trustees
- Performance against budget and objectives is regularly reviewed by the Trustees
- Key performance indicators are included in internal reports and regularly reviewed by Trustees
- Clearly defined capital investment control guidelines and formal project control disciplines

The Director's group consider risk when assessing any major project and formally review significant risks before they are reviewed by the Audit Committee. The significant risks have all been assessed and scored for impact and probability, and a mitigation policy has been formulated taking into consideration risk appetite.

5. Review of effectiveness

The Accounting Officer and Trustees also have responsibility for reviewing the effectiveness of the system of internal control. This review is informed by the work of the internal auditors and the executive managers within Tate who have responsibility for the development and maintenance of the internal control framework. Comments made by the external auditors in their management letter and other reports are also taken into account.

The Accounting Officer and Trustees have been advised on the implications of the result of the review of the effectiveness of the system of internal control by the Board and the Audit Committee. The action plan to improve the system of financial control within Tate Enterprises, a division of Tate Enterprises Limited, was fully implemented during the year.

During the year the Charity Commission undertook a review of the five acquisitions of works of art made from serving Trustees since 1992 and have concluded that the acquisitions are beneficial in the interests of Tate and

should not be set aside. In parallel the Trustees requested the internal auditors review their processes for identifying and handling conflicts of interest and have subsequently adopted improved procedures. Procedures have also been modified to ensure the Charity Commission's authority is sought for any future such transactions.

The Board of Trustees has contracted the internal audit service, which operates to standards defined in the Government Internal Audit Standards, to AHL Limited. The work of the internal auditors is informed by an analysis of the risk to which the organisation is exposed, and annual audit plans are based on this analysis. The analysis of risk and the internal audit plans are endorsed by the Audit Committee and approved by the Accounting Officer and Trustees. At least annually, the auditors provide a report on internal audit activity in Tate. The report includes the auditor's independent opinion on the adequacy and effectiveness of the system of internal control together with recommendations for improvement.

The system of internal control has been in place in Tate for the year ended 31 March 2006 and up to the date of approval of the annual report and accounts.

Sir Nicholas Serota
Director, Tate

Paul Myners
Chairman, Tate

July 2006

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

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

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

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

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

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

I review whether the statement on pages 16 and 17 reflects Tate's compliance with HM Treasury's guidance on the Statement on Internal Control and I report if it does not. I am not required to consider whether the Trustees' and Director's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of Tate's corporate governance procedures or its risk and control procedures.

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

Basis of audit opinion

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

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

Opinion

In my opinion:

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

I have no other observations to make on these financial statements.

John Bourn
Comptroller and Auditor General

18 July 2006

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

Consolidated Statement of Financial Activities for the year ended 31 March 2006

	Notes	Income and Expenditure			Capital		
		2005-06	2005-06	2005-06	2005-06	2005-06	2005-06
		Un-restricted funds £000	Restricted funds £000	Total funds £000	Un-restricted funds £000	Restricted funds £000	Total funds £000
Incoming Resources							
<i>Incoming resources from generated funds</i>	2						
Voluntary income							
– Donated works of art		–	–	–	–	–	–
– Other voluntary income		1,184	2,561	3,745	–	2,233	2,233
Activities for generating funds							
– Trading income	9	22,118	–	22,118	1,275	–	1,275
– Other activities for generating funds		6,589	–	6,589	–	–	–
Investment income	3	932	16	948	–	5,827	5,827
<i>Incoming resources from charitable activities</i>	4						
– Grant in Aid		29,799	–	29,799	2,000	–	2,000
– Other income from charitable activities		8,489	–	8,489	–	537	537
<i>Other incoming resources</i>		555	–	555	–	51	51
Total incoming resources		69,666	2,577	72,243	3,275	8,648	11,923
Resources expended	6						
<i>Costs of generating funds</i>							
Costs of generating voluntary income		606	2,561	3,167	29	7	36
Fundraising trading: cost of goods sold and other costs							
– Trading costs		21,299	–	21,299	503	–	503
– Other costs of generating funds		2,330	–	2,330	23	6	29
Investment management costs		–	12	12	–	–	–
<i>Charitable activities</i>		44,036	–	44,036	1,117	10,068	11,185
<i>Governance costs</i>		567	–	567	–	1	1
<i>Other resources expended</i>		553	–	553	–	–	–
Total resources expended		69,391	2,573	71,964	1,672	10,082	11,754
Net incoming/(outgoing) resources before notional costs	5	275	4	279	1,603	(1,434)	169
Cost of capital	7	–	–	–	(6,596)	–	(6,596)
Net incoming/(outgoing) resources after notional costs		275	4	279	(4,993)	(1,434)	(6,427)
Reversal of notional costs		–	–	–	6,596	–	6,596
Net incoming/(outgoing) resources before transfers		275	4	279	1,603	(1,434)	169
Transfers between funds	13	–	(27)	(27)	(16)	16	–
Net incoming/(outgoing) resources after transfers		275	(23)	252	1,587	(1,418)	169
Gain on investment assets		–	20	20	–	–	–
Gain on revaluation of tangible fixed assets		–	–	–	176	19,714	19,890
Net movement of funds		275	(3)	272	1,763	18,296	20,059
Funds brought forward at 1 April 2005	13	10,583	164	10,747	20,332	316,608	336,940
Funds carried forward at 31 March 2006		10,858	161	11,019	22,095	334,904	356,999

All operations of Tate 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.

Consolidated Statement of Financial Activities for the year ended 31 March 2006 *(continued)*

2005-06	Collections		2005-06	Total			2005-06	2004-05 (restated) Total funds £000
	Un- restricted funds £000	Restricted funds £000		2005-06	Un- restricted funds £000	Restricted funds £000		
–	5,975	5,975	–	5,975	–	–	5,975	4,231
11	4,682	4,693	1,195	9,476	–	–	10,671	10,589
2,122	–	2,122	25,515	–	–	–	25,515	23,759
–	–	–	6,589	–	–	–	6,589	5,403
588	22	610	1,520	5,865	–	–	7,385	7,243
–	–	–	31,799	–	–	–	31,799	29,881
1	–	1	8,490	537	–	–	9,027	7,164
–	54	54	555	105	–	–	660	549
2,722	10,733	13,455	75,663	21,958	–	–	97,621	88,819
3	–	3	638	2,568	–	–	3,206	3,615
–	–	–	21,802	–	–	–	21,802	20,228
–	–	–	2,353	6	–	–	2,359	1,978
30	1	31	30	13	–	–	43	10
–	–	–	45,153	10,068	–	–	55,221	50,008
–	–	–	567	1	–	–	568	509
–	–	–	553	–	–	–	553	549
33	1	34	71,096	12,656	–	–	83,752	76,897
2,689	10,732	13,421	4,567	9,302	–	–	13,869	11,922
–	–	–	(6,596)	–	–	–	(6,596)	(5,972)
2,689	10,732	13,421	(2,029)	9,302	–	–	7,273	5,950
–	–	–	6,596	–	–	–	6,596	5,972
2,689	10,732	13,421	4,567	9,302	–	–	13,869	11,922
–	–	–	(16)	(11)	–	–	(27)	–
2,689	10,732	13,421	4,551	9,291	–	–	13,842	11,922
2,479	2	2,481	2,479	22	53	–	2,554	809
–	–	–	176	19,714	–	–	19,890	38,014
5,168	10,734	15,902	7,206	29,027	53	–	36,286	50,745
25,694	37,516	63,210	56,609	354,288	354	–	411,251	360,506
30,862	48,250	79,112	63,815	383,315	407	–	447,537	411,251

Consolidated Balance Sheet at 31 March 2006

	Notes	2006 £000	2005 £000
Fixed assets			
Tangible assets	8	417,073	383,528
Investments	3	26,440	21,752
		<u>443,513</u>	<u>405,280</u>
Current assets			
Tate Modern security deposit	17	120,329	118,798
Tate Modern funds		8,420	8,161
Stocks	9	2,497	2,518
Debtors and prepayments	10	9,871	9,109
Cash and liquid resources		11,131	11,167
		<u>152,248</u>	<u>149,753</u>
Creditors: amounts falling due within one year	11	(18,655)	(15,048)
Net current assets		<u>133,593</u>	<u>134,705</u>
Total assets less current liabilities		<u>577,106</u>	<u>539,985</u>
Creditors: amounts falling due after more than one year	11	(129,569)	(128,734)
Total assets less liabilities		<u>447,537</u>	<u>411,251</u>
Represented by:			
Restricted reserves	13	383,315	354,288
Unrestricted reserves			
Designated	13	52,957	46,026
General	13	10,858	10,583
Total funds		<u>447,130</u>	<u>410,897</u>
Endowments	13	407	354
Total funds		<u>447,537</u>	<u>411,251</u>

The financial statements on pages 20 to 39 were approved and authorised for issue by the Trustees on:

Signed on behalf of the Board of Trustees of the Tate Gallery

Sir Nicholas Serota
Director, Tate

Paul Myners
Chairman, Tate

July 2006

The notes on pages 25 to 39 form part of the accounts

Tate Balance Sheet at 31 March 2006

	Notes	2006 £000	2005 £000
Fixed assets			
Tangible assets	8	416,073	382,355
Investments		29,935	25,247
		446,008	407,602
Current assets			
Tate Modern security deposit	17	120,329	118,798
Tate Modern funds		8,420	8,161
Debtors and prepayments	10	11,741	11,089
Cash and liquid resources		7,451	7,488
		147,941	145,536
Creditors: amounts falling due within one year	11	(16,547)	(13,029)
Net current assets		131,394	132,507
Total assets less current liabilities		577,402	540,109
Creditors: amounts falling due after more than one year	11	(129,569)	(128,734)
Total assets less liabilities		447,833	411,375
Represented by:			
Restricted reserves		383,257	354,233
Unrestricted reserves			
Designated		51,957	44,853
General		12,212	11,935
Total funds		447,426	411,021
Endowments		407	354
Total funds		447,833	411,375

The financial statements on pages 20 to 39 were approved and authorised for issue by the Trustees on:

Signed on behalf of the Board of Trustees of the Tate Gallery

Sir Nicholas Serota
Director, Tate

Paul Myners
Chairman, Tate

July 2006

The notes on pages 25 to 39 form part of the accounts

Consolidated Cash Flow Statement for the year ended 31 March 2006

	Notes	2006 £000	2005 £000
Net cash inflow from operating activities	15	8,229	3,612
<i>Returns on investments and servicing of finance</i>			
Interest received		<u>7,389</u>	<u>7,036</u>
Net cash inflow from returns on investments and servicing of finance		7,389	7,036
<i>Capital expenditure and financial investment</i>			
Purchase of tangible fixed assets		(11,720)	(7,433)
Purchase of investments		(5,893)	(11,714)
Proceeds from sale of investments		<u>3,716</u>	<u>6,268</u>
Net cash outflow from capital expenditure		(13,897)	(12,879)
Management of liquid resources	15(iii)	<u>(571)</u>	<u>1,817</u>
Increase/(decrease) in cash		<u>1,150</u>	<u>(414)</u>

The notes on pages 25 to 39 form part of the accounts

Notes to the Accounts

1 Accounting Policies

Basis of accounting

The financial statements are prepared under the historical cost convention as modified for the revaluation of certain fixed assets and the inclusion of investments at market value. The accounts comply with the requirements of the Companies Act 1985, the Statement of Recommended Practice (the SORP) "Accounting and Reporting by Charities" (revised 2005) and applicable accounting standards. As a result of the revised SORP prior year comparatives have been reallocated where applicable.

Basis of consolidation

The Tate financial statements consolidate the results of Tate and its wholly-owned subsidiaries Tate Enterprises Limited, Tate Gallery Publishing Limited and Tate Gallery Projects Limited. A separate Statement of Financial Activities or Income and Expenditure Account for Tate is not presented, as Tate has taken advantage of the exemptions afforded by section 230 of the Companies Act 1985 and paragraph 397 of SORP 2005.

Incoming resources

Incoming resources are shown net of Value Added Tax. In general, income is accounted for on a receivable basis. The following accounting policies are applied to income:

Voluntary income:

Donated works of art are recognised as income based on an approximate value at the date of receipt. Donation income, including lottery and grant income, is recognised as income when the conditions for its receipt have been met. Legacies are accounted for on receipt.

Activities for generating funds:

Sponsorship income is recognised as income when the conditions for its receipt have been met.

Investment income:

Dividend and interest income is recognised on a receivable basis.

Incoming resources from charitable activities:

Grant in Aid from the Department for Culture, Media and Sport is recognised on receipt.

Resources expended

All expenditure is accounted for on an accruals basis and is classified on the following bases:

Costs of generating funds:

Comprises the costs associated with generating voluntary income, trading income and income raised from other activities.

Charitable activities:

Comprises the costs associated with the performance of gallery activities and operations, the costs of maintaining the Collection and the Tate Modern lease costs.

Governance costs:

Comprises the costs of staff involved in governance, as well as audit fees.

Support costs:

Comprises the costs of finance, human resources, information technology, estates and facilities and general administration and support. These costs are allocated to the various categories of expenditure based on the number of staff working for each support department, as a percentage of the number of staff working for each directly-allocated department.

The Collection

In accordance with FRS15 – Tangible Fixed Assets, additions to the Collection acquired since 1 April 2001 are capitalised and recognised in the Balance Sheet, at the cost or value of the acquisition, where such a cost or valuation is reasonably obtainable. Such items are not depreciated or revalued as a matter of routine.

Fixed assets

The threshold for capitalisation of non-Collection fixed assets is as follows:

Tate	£5,000
Tate Enterprises Limited	£500

With the exception of assets in the course of construction, long leasehold, works of art and other assets, tangible assets are stated at modified historic cost. Revaluation of assets is undertaken on a periodic basis and material variations from historical cost are reflected in the balance sheet value and unrealised gains or losses are disclosed in the Statement of Financial Activities. The cost of land and buildings includes interest and fees paid as a result of financing arrangements for assets in the course of construction.

With the exception of Collection items, depreciation is provided on all tangible fixed assets at rates calculated to write off the cost or valuation of each asset evenly over its expected life. Following the last formal revaluation in March 2004, the useful economic lives of the tangible fixed assets have been revised to the following:

Land	– not depreciated
Finance leases	– term of lease
Buildings	– 50 to 100 years
Plant and fit-out	– 5 to 25 years
Other	– 2 to 10 years

Investments

Investments are stated at market value rather than at historical cost. Any unrealised gains or losses arising from this policy are disclosed in the Statement of Financial Activities.

Stock

Stock is stated at the lower of cost or net realisable value.

Cash and liquid resources

Funds placed on money market deposit for more than one day are defined as liquid resources. Funds held in cash or in current or call accounts are defined as cash.

Foreign currencies

Assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the year-end. Transactions in foreign currencies are translated at the rate ruling at the time of transaction. All exchange differences go to the Statement of Financial Activities.

Finance and operating leases

Costs in relation to operating leases are charged to the Statement of Financial Activities over the life of the lease.

The leasing agreement for Tate Modern (see note 17) transfers to the Trustees substantially all the benefits and risks of ownership of the asset and the asset is treated as though it has been purchased outright. The capital value of the leasing commitment is shown as obligations under finance leases. The asset is valued at the present value of Tate's current obligations under the lease, which equates to the commutation value.

Pensions

The Civil Service Pension Schemes (CSPS) are unfunded multi-employer defined benefit schemes, of which Tate is not able to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2003. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2005-06, employers' contributions of £2,528,000 were payable to the CSPS (2004-05 £1,897,000) at one of four rates in the range of 16.2% to 25.6% of pensionable pay, based on salary bands. The schemes' Actuary reviews employer contributions every four years following a full scheme valuation. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the schemes.

Employees joining after 1 October 2002 could opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £63,000 (£35,000 in 2004-05) were paid to one or more of a panel of four appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £122,000 (£124,000 in 2004-05), 0.8% of pensionable pay, were payable to the CSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees. There were no contributions due to the partnership pension providers at the balance sheet date. There were no contributions prepaid at that date.

Past and present employees are covered by the provisions of the CSPS. The defined benefit elements of the schemes are unfunded and are non-contributory except in respect of dependants' benefits. Tate recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from

employees' services by payment to the CSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the CSPS. In respect of the defined contribution elements of the schemes, the department recognises the contributions payable for the year.

Tate Enterprises Limited operates money purchase pension schemes. The assets of the schemes are held separately from those of the group in an independently administered fund. The amounts charged against profit represent the contributions payable to the schemes in respect of the accounting period. Pension contributions of £260,000 were made in the year (2004-05 £181,000).

Fund accounting

Tate maintains general, designated, restricted and endowment funds as set out in note 13.

Taxation

Tate has no sources of income liable to corporation tax and no provision has therefore been made. The taxable profits of Tate Enterprises Limited are paid to Tate under Gift Aid rules and no tax liability is expected for the year ending 31 March 2006.

2. Incoming resources from generated funds

Voluntary income	2006	2005
	£000	£000
Donated works of art	5,975	4,231
Lottery and other public funding		
London Development Agency	1,500	–
Department for Culture, Media and Sport	225	77
Heritage Lottery Fund	1,606	327
Millennium Commission	81	1,277
New Opportunities Fund	28	95
South West Arts	19	12
Total Lottery and other public funding	3,459	1,788
Donations from associated charities	4,815	4,216
Other donations	2,397	4,585
	16,646	14,820
of which the following is taken to (see pages 20 and 21)		
Income and expenditure	3,745	3,065
Capital	2,233	2,377
Collections	10,668	9,378
Activities for generating funds		
	2006	2005
	£000	£000
Trading	25,515	23,759
Sponsorship	5,217	4,244
Other activities for generating funds	1,372	1,159
	32,104	29,162
of which the following is taken to (see pages 20 and 21)		
Income and expenditure	28,707	27,209
Capital	1,275	304
Collections	2,122	1,649

Included in Sponsorship income is £1,037,000 of barter advertising.

3. Investments and investment income

	2006	2005
	£000	£000
Bank interest	6,608	6,732
Income on quoted investments	777	511
	7,385	7,243
of which the following is taken to (see pages 20 and 21)		
Income and expenditure	948	729
Capital	5,827	5,946
Collections	610	568

Unrealised gains and losses are included in the Statement of Financial Activities.

Investments total £26,440,000 (£21,752,000 in 2004-05).

	2005	Additions/ (disposals)	Realised and unrealised	2006
	Market	in year	gains/(losses)	Market
	Value	£000	£000	Value
	£000	£000	£000	£000
Bank floating rate loan notes	5,004	–	–	5,004
Hedge funds	–	1,920	79	1,999
Investment portfolio:				
UK fixed interest	6,320	1,737	109	8,166
Non-UK fixed interest	906	(906)	–	–
UK equities	5,328	213	1,359	6,900
Non-UK equities	2,859	347	990	4,196
UK money market deposits	1,335	(1,145)	(15)	175
Total	21,752	2,166	2,522	26,440

All investments are held in order to provide an investment return.

4. Incoming resources from charitable activities

	2006	2004
	£000	£000
Grant in Aid	31,799	29,881
Admissions	6,795	5,539
Other incoming resources from charitable activities	2,232	1,625
	40,826	37,045
The following is taken to (see pages 20 and 21)		
Income and expenditure	38,288	35,743
Capital	2,537	1,300
Collections	1	2

5. Net incoming resources

are stated after charging:

	2006	2005
	£000	£000
Auditors' remuneration		
Comptroller and Auditor General	33	32
Subsidiaries	29	22
Taxation advice	38	65
Operating lease rentals		
Land and buildings	196	219
Vehicles and equipment	42	84
Depreciation	5,813	5,795
(Profit)/loss on foreign exchange transactions	(54)	38

6. Total resources expended

	Staff costs		Other direct costs		Depreciation*	2006 Total £000	2005 Total £000
	Direct £000	Allocated £000	Direct £000	Allocated £000			
<i>Costs of generating funds</i>							
Costs of generating voluntary income	910	115	1,720	424	37	3,206	3,615
Fundraising trading: cost of goods sold and other costs							
– Trading costs	7,961	–	13,338	–	503	21,802	20,228
– Other fundraising costs	1,541	89	372	328	29	2,359	1,978
Investment management costs	–	11	32	–	–	43	10
<i>Charitable activities</i>							
– Gallery activities	6,887	–	12,973	–	–	19,860	16,388
– Gallery operations	5,022	–	933	–	–	5,955	6,633
– Collections	5,431	–	1,582	–	–	7,013	6,566
– Lease cost	–	–	5,941	–	–	5,941	5,583
– Support costs	–	2,380	–	8,828	5,244	16,452	14,838
<i>Total charitable activities</i>	<u>17,340</u>	<u>2,380</u>	<u>21,429</u>	<u>8,828</u>	<u>5,244</u>	<u>55,221</u>	<u>50,008</u>
<i>Governance costs</i>	440	42	86	–	–	568	509
<i>Other resources expended</i>	407	146	–	–	–	553	549
Total resources expended	<u>28,599</u>	<u>2,783</u>	<u>36,977</u>	<u>9,580</u>	<u>5,813</u>	<u>83,752</u>	<u>76,897</u>

Direct costs of charitable activities include £5,941,000 (£5,583,000 in 2004-05) relating to the finance lease payment, which is offset by interest earned on the Tate Modern Security Deposit.

*Includes any downward impact of asset revaluations, where applicable.

a) Support cost breakdown by activity

Support cost	Costs of generating voluntary income £000	Fundraising costs £000	Investment management costs £000	Charitable activities £000	Governance costs £000	Other resources expended £000
Finance and Legal	34	26	11	757	42	146
Human resources	43	33	–	889	–	–
Information systems	71	55	–	1,467	–	–
Estates	391	303	–	8,095	–	–
Total resources expended	<u>539</u>	<u>417</u>	<u>11</u>	<u>11,208</u>	<u>42</u>	<u>146</u>

Costs are allocated based on the number of staff working for each support department, as a percentage of the number of staff working for each directly-allocated department.

b) Staff costs

	2006 £000	2005 £000
Wages and salaries	24,478	23,121
Pension costs	2,973	2,357
Social Security costs	1,923	1,812
Total employee costs	29,374	27,290
Agency staff costs	2,008	1,739
	<u>31,382</u>	<u>29,029</u>

The Chairman and other Trustees received no remuneration; Trustees received reimbursement of travel and subsistence expenses amounting to £3,660 in 2005-06 (£528 in 2004-05).

The number of Tate employees, including the Director, whose emoluments as defined for taxation purposes amounted to over £60,000 in the year was as follows:

	2006	2005
	No.	No.
£60,000 – £69,999	2	3
£70,000 – £79,999	2	3
£80,000 – £89,999	5	3
£90,000 – £99,999	1	1
£140,000 – £149,999	1	1

All eleven staff earning more than £60,000 are members of a defined benefit pension scheme.

The average number of full-time equivalent (FTE) staff during the year was 1,157 (1,147 in 2004-05). Included within this total are 15 FTE staff on temporary contracts (16 in 2004-05) and 34 FTE staff on fixed-term contracts (37 in 2004-05).

The breakdown of average FTE staff by occupational group was:

	2006	2005
	No.	No.
<i>Costs of generating funds</i>		
Costs of generating voluntary income	25	21
Fundraising trading: cost of goods sold and other costs		
– Trading	480	458
– Other	50	48
<i>Charitable activities</i>	580	595
<i>Governance costs</i>	5	5
<i>Other resources expended</i>	17	20
	<u>1,157</u>	<u>1,147</u>

One person retired early on ill-health grounds (one in 2004-05); the total additional accrued pension liabilities to CSPS in the year amounted to nil (nil in 2004-05).

7. Notional costs

Notional cost of capital is £6,596,000 (£5,972,000 in 2004-05), calculated as 3.5% of the average qualifying capital employed by Tate in the year.

8. Fixed assets

Group	Land	Freehold buildings	Leasehold improvements	Assets in the course of construction	Plant and fit-out	Long leasehold	Works of art	Other	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Value at 1 April 2005	98,234	36,337	15,965	490	57,896	131,998	44,500	10,940	396,360
Additions at cost	-	-	121	4,221	901	-	13,332	893	19,468
Valuation of assets	8,031	2,907	1,314	-	4,808	1,700	-	-	18,760
Disposals	-	-	-	-	-	-	-	(389)	(389)
Value at 31 March 2006	106,265	39,244	17,400	4,711	63,605	133,698	57,832	11,444	434,199
Depreciation at 1 April 2005	-	1,132	457	-	2,316	-	-	8,927	12,832
Charge for the year	-	539	249	-	2,550	1,393	-	1,082	5,813
Valuation of assets	-	37	37	-	189	(1,393)	-	-	(1,130)
Disposals	-	-	-	-	-	-	-	(389)	(389)
Depreciation at 31 March 2006	-	1,708	743	-	5,055	-	-	9,620	17,126
Net book value at 31 March 2006	106,265	37,536	16,657	4,711	58,550	133,698	57,832	1,824	417,073
Net book value at 1 April 2005	98,234	35,205	15,508	490	55,580	131,998	44,500	2,013	383,528
Tate	Land	Freehold buildings	Leasehold improvements	Assets in the course of construction	Plant and fit-out	Long leasehold	Works of art	Other	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Value at 1 April 2005	98,234	35,542	15,965	490	57,896	131,998	44,500	7,299	391,924
Additions at cost	-	-	121	4,221	901	-	13,332	562	19,137
Valuation of assets	8,031	2,907	1,314	-	4,808	1,700	-	-	18,760
Disposals	-	-	-	-	-	-	-	(389)	(389)
Value at 31 March 2006	106,265	38,449	17,400	4,711	63,605	133,698	57,832	7,472	429,432
Depreciation at 1 April 2005	-	445	457	-	2,316	-	-	6,351	9,569
Charge for the year	-	481	249	-	2,550	1,393	-	636	5,309
Valuation of assets	-	37	37	-	189	(1,393)	-	-	(1,130)
Disposals	-	-	-	-	-	-	-	(389)	(389)
Depreciation at 31 March 2006	-	963	743	-	5,055	-	-	6,598	13,359
Net book value at 31 March 2006	106,265	37,486	16,657	4,711	58,550	133,698	57,832	874	416,073
Net book value at 1 April 2005	98,234	35,097	15,508	490	55,580	131,998	44,500	948	382,355

In accordance with Treasury requirements, assets are stated at current cost in the accounts and indexed annually, using indices supplied by HM Treasury, when no formal revaluation is undertaken. Works of art are excluded from this requirement. A revaluation of the Trustees' property holdings was undertaken at 31 March 2004 by Drivers Jonas, a firm of independent property consultants. The revaluation was in accordance with the Royal Institution of Chartered Surveyors' "new Red Book", RICS Appraisal and Valuation Standards. Tate Modern is held under a finance lease and, in accordance with the HM Treasury Financial Reporting Manual, the asset is revalued annually based on the present value of Tate's current obligations under the lease; this equates to the commutation value of £133,698,000.

The financial effect of revaluing other fixed assets was considered to be immaterial and therefore they have been disclosed at their historical cost value.

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

Group	Land	Freehold buildings	Leasehold improvements	Assets in the course of construction	Plant and fit-out	Long leasehold	Works of art	Other	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Charitable activities	106,265	37,486	16,657	4,711	58,550	133,698	57,832	874	416,073
Other activities	-	50	-	-	-	-	-	950	1,000
	<u>106,265</u>	<u>37,536</u>	<u>16,657</u>	<u>4,711</u>	<u>58,550</u>	<u>133,698</u>	<u>57,832</u>	<u>1,824</u>	417,073

Tate's fixed assets are held to support charitable activities.

9. Subsidiaries

The Board of Trustees of the Tate Gallery owns the whole of the issued share capital of Tate Enterprises Limited (comprising 3,495,320 ordinary shares of £1 each), Tate Gallery Publishing Limited (comprising 100 ordinary shares of £1 each) and Tate Gallery Projects Limited (comprising 100 ordinary shares of £1 each).

Tate Enterprises Limited

Tate Enterprises Limited's principal activities comprise the management and operation of restaurant, café and ancillary services for the benefit of visitors to Tate's galleries, the publishing and sale of books and other products and merchandise associated with the Collection and Tate activities, and the provision of education services at all Tate sites.

The figures below are taken from the Tate Enterprises Limited accounts. The business comprises the publishing, retail, catering and education operations of Tate.

	2006 £000	2005 £000
Fixed assets	1,000	1,173
Current assets	7,414	7,499
Current liabilities	(5,272)	(5,356)
Net assets	3,142	3,316
Capital and reserves	3,142	3,316
	3,142	3,316

Current assets include stock of £2,497,000, comprising: work in progress £144,000; finished goods and goods for resale £2,240,000; stock in transit £113,000.

	2006 £000	2005 £000
Turnover	26,622	25,164
Cost of sales	(14,230)	(13,229)
Gross profit	12,392	11,935
Other income	914	724
Administrative expenses	(10,412)	(9,351)
Trading profit	2,894	3,308
Interest receivable	177	165
Net contribution	3,071	3,473

The net contribution consists of £3,231,000 from publishing and retail operations and £1,495,000 from catering operations, before offsetting a deficit from education services of £1,655,000. Turnover includes £1,079,000 of sales to Tate. Administrative expenses include £243,000 of expenditure recharged by Tate.

Tate Gallery Publishing Limited

Tate Gallery Publishing Limited is a wholly owned subsidiary of the Board of Trustees of the Tate Gallery.

Tate Gallery Projects Limited

Tate Gallery Projects Limited is a wholly owned subsidiary of the Board of Trustees of the Tate Gallery. Its principal activities consist of fund-raising and project management in respect of the Tate Modern Development project. Net assets have increased by £2,602 to £57,495 in the year.

10. Debtors

	Group		Tate	
	2006	2005	2006	2005
	£000	£000	£000	£000
Trade debtors	5,221	4,547	4,287	3,729
Amounts due from group companies	–	–	3,002	2,943
Amounts due from Central Government	1,592	21	1,592	21
Accounts bodies				
Other debtors	800	928	775	916
Prepayments and accrued income	2,258	3,613	2,085	3,480
	<u>9,871</u>	<u>9,109</u>	<u>11,741</u>	<u>11,089</u>

11. Creditors: amounts falling due within one year

	Group		Tate	
	2006	2005	2006	2005
	£000	£000	£000	£000
Trade creditors	4,693	4,428	3,519	3,366
Amounts due to group companies	–	–	297	439
Amounts due to Central Government	125	16	125	16
Accounts bodies				
Taxation and social security	1,032	1,065	441	408
Other creditors	1,500	1,062	1,303	850
Accruals	6,245	3,157	5,820	2,635
Deferred income	931	2,056	913	2,051
Obligations under finance lease (Note 17)	4,129	3,264	4,129	3,264
	<u>18,655</u>	<u>15,048</u>	<u>16,547</u>	<u>13,029</u>

Creditors: amounts falling due after more than one year

	Group		Tate	
	2006	2005	2006	2005
	£000	£000	£000	£000
Obligations under finance lease (Note 17)	129,569	128,734	129,569	128,734

Deferred income

	Group		Tate	
	2006 £000	2005 £000	2006 £000	2005 £000
Deferred income brought forward	2,056	3,315	2,051	3,315
Released in year	(2,056)	(3,299)	(2,051)	(3,299)
Deferred in year	932	2,040	914	2,035
Deferred income carried forward	932	<u>2,056</u>	914	<u>2,051</u>

Income has been deferred to subsequent periods where that income is dependent on the achievement of specific performance.

12. Operating leases

At 31 March 2006 Tate had annual commitments under non-cancellable leases as follows:

	Land & Buildings	Other	2006	2005
	£000	£000	£000	£000
Operating leases expiring within				
Two to five years	–	42	42	84
More than five years	196	–	196	219
	<u>196</u>	<u>42</u>	<u>238</u>	<u>303</u>

No other members of the Group hold operating leases.

13. Statement of funds

	Opening Funds £000	Transfers £000	Income £000	Expen- diture £000	Gain on investment/ revaluation £000	Closing Funds £000
Unrestricted						
<i>Designated</i>						
Works of art	7,647	–	2,433	–	–	10,080
Buildings and equipment	20,332	(16)	3,275	(1,672)	176	22,095
Collection fund	18,047	–	289	(33)	2,479	20,782
	<u>46,026</u>	<u>(16)</u>	<u>5,997</u>	<u>(1,705)</u>	<u>2,655</u>	<u>52,957</u>
<i>General funds</i>	10,583	–	69,666	(69,391)	–	10,858
Total unrestricted funds	56,609	(16)	75,663	(71,096)	2,655	63,815
Restricted						
Tate Modern development	113,012	–	5,908	(7,481)	23	111,462
Buildings and equipment	110,961	16	2,740	(2,601)	642	111,758
Revaluation reserve	92,635	–	–	–	19,049	111,684
Works of art	36,832	–	10,827	–	–	47,659
Acquisition trust funds	684	–	(94)	(1)	2	591
Other funds	164	(27)	2,577	(2,573)	20	161
	<u>354,288</u>	<u>(11)</u>	<u>21,958</u>	<u>(12,656)</u>	<u>19,736</u>	<u>383,315</u>
Endowments	354	–	–	–	53	407
Total funds	411,251	(27)	97,621	(83,752)	22,444	447,537

The accounts comprise a number of individual funds that divide into distinct categories, which are defined below.

Designated funds

Funds designated for a particular use by the Trustees.

Designated funds and the purpose for which their income may be applied are:

Works of art – funds applied towards the purchase of works of art for the Collection.

Buildings and equipment – funds applied towards the purchase of equipment and building works.

Collection fund – funds designated by the Trustees for the benefit of the Collection. On designation, £10,000,000 was earmarked as capital; the income from which amount will be used to purchase works of art. The balance of the fund will benefit the long-term care of the Collection including research, conservation and improving access to Tate's Collection Store in Southwark.

General funds

Funds available for general use.

Restricted funds

Funds restricted for particular purposes either by the wishes of the donor or by the nature of the fund-raising appeal.

Restricted funds and the purpose for which their income may be applied are:

Tate Modern development – funds raised from the Millennium Commission, English Partnerships, Southwark Borough Council, private and corporate donors towards the redevelopment of Bankside Power Station as Tate Modern.

Buildings and equipment – the value of Tate's estate vested in the Board of Trustees by the Secretary of State for the Environment and adjusted for subsequent valuations and disposals; also, restricted funds, including money from lottery and other public sources, raised specifically for and applied to the purchase of equipment and building works.

Revaluation reserve – the reserve arising from the 5-yearly revaluation and the indexation of historical asset values to arrive at a modified historical cost. The reserve applies to both restricted and unrestricted assets, but all of the reserve is restricted.

Works of art – restricted funds, including money from the Heritage Lottery Fund, raised specifically for and applied to the purchase of works of art together with all donated works of art since 1 April 2001.

Acquisition trust funds – a number of restricted trust funds for the purchase of works of art for the Collection.

Knapping Fund – for the purchase for exhibition in England, Scotland and Wales of paintings in any medium, or sculpture, by artists of any nationality living at or within twenty five years of the time of purchase.

Abbott Bequest – for the purchase of pictures and drawings by D.G. Rossetti or his contemporaries.

Thomson Fund – for the purchase of Canadian works of art.

Other restricted funds:

Shenkman Fund – to pay for commissions of works of art at Tate Modern Restaurant.

Other funds which were set up and utilised during the year as a result of donations received for specific purposes.

Endowment funds

Endowment funds are funds that the donor has stated are to be held as capital.

The endowment funds and the purpose for which their income may be applied are:

Gytha Trust – expendable endowment for purchases for the Collection. The capital portion of this endowment can be spent at the Trustees' discretion.

Evelyn, Lady Downshire's Fund – for the purchase of modern paintings. This endowment is a permanent endowment. The capital remains permanently intact and only the income can be spent.

14. Analysis of net assets between funds

Funds balances at 31 March 2006 are represented by:

	Unrestricted funds £000	Restricted Funds £000	Endowment funds £000	Total 2006 £000	Total 2005 £000
Tangible fixed assets	32,175	384,898	–	417,073	383,528
Investments	25,833	200	407	26,440	21,752
Net current assets	5,807	127,786	–	133,593	134,705
Long term creditors	–	(129,569)	–	(129,569)	(128,734)
Total net assets	<u>63,815</u>	<u>383,315</u>	<u>407</u>	<u>447,537</u>	<u>411,251</u>

15. Cash flow information**(i) Reconciliation of operating surplus to net cash inflows from operating activities**

	2006 £000	2005 £000
Net incoming resources	13,869	11,922
Investment income	(7,389)	(7,036)
Depreciation	5,813	5,795
Donations of works of art	(5,975)	(4,231)
Decrease/(increase) in stocks	21	(223)
Increase in debtors	(762)	(2,800)
Increase in creditors	2,652	185
Net cash inflow from operating activities	<u>8,229</u>	<u>3,612</u>

(ii) Reconciliation of net cash flow to movement in funds

	2006 £000	2005 £000
Increase/(decrease) in cash in the year	1,150	(414)
Cash flow from management of liquid resources	571	(1,817)
Change in funds resulting from cash flows	1,721	(2,231)
Net funds at 1 April 2005	138,166	140,397
Net funds at 31 March 2006	<u>139,887</u>	<u>138,166</u>

(iii) Analysis of movement in funds

	2005 £000	Cash Flow £000	2006 £000
Tate Modern security deposit	118,798	1,531	120,329
Tate Modern funds	8,161	259	8,420
Liquid resources	8,451	(1,219)	7,232
	<u>135,410</u>	<u>571</u>	<u>135,981</u>
Cash	2,756	1,150	3,906
	<u>138,166</u>	<u>1,721</u>	<u>139,887</u>

Liquid resources comprise those funds that are held on deposit.

(iv) Material non-cash transactions

	2006	2005
	£000	£000
Donations of works of art	5,975	4,231

16. Capital commitments

	2006	2005
	£000	£000
Financial commitments were as follows:		
Acquisition of works of art contracted for, but not provided in the accounts	1,783	758

17. Tate Modern finance leasing structure

The Board of Trustees of the Tate Gallery (Tate) has entered into a finance lease arrangement for the development of Tate Modern at Bankside, the principal elements of which are described below.

Tate Gallery Projects Limited (TGPL) acquired the freehold of the site of Bankside Power Station in March 1996 for £11,439,000 with assistance from various sources including a substantial grant from the Urban Regeneration Agency; under the terms of this grant legal title to the property remained with Magnox Electric until the start of construction in August 1997 when title passed to TGPL.

TGPL is a wholly owned subsidiary of Tate and granted a 105-year head lease interest in the site of the Bankside Power Station to NatWest Markets Property Investments Limited (NWPIL) on the 28 October 1997 for a premium of £11,385,000.

NWPIL commissioned TGPL to undertake the development of Bankside Power Station as the site of Tate Modern to a specification determined by Tate. The costs of construction were borne by TGPL and recovered from NWPIL in accordance with an agreed payment schedule.

Tate entered into a 105-year lease of the site of Bankside Power Station from NWPIL on 28 October 1997. Under the term of the lease Tate commenced the payment of rent over a 35-year primary rental period on 1 October 2000. The level of rental payments takes account of NWPIL's investment in the property and interest charges accruing thereto.

Under the terms of the lease, Tate is obliged to hold a cash sum equivalent to 90% of the present value of its future rental and interest obligations as security for the performance of these obligations. This sum is described as Tate Modern security deposit on pages 22 and 23 to the accounts and is subject to a charge in favour of NWPIL. At the year end the deposit was £128,749,000 (2004-05 £126,959,000); 90% of the present value would be £120,329,000 (2004-05 £118,798,000).

The rental obligations to which Tate is committed are

	2006	2005
	£000	£000
In one year or less	4,129*	3,264*
Between one and two years	9,665	9,330
Between two and five years	31,128	30,049
Over five years	430,725	442,011
	475,647	484,654

*restated to reflect current interest rates

The Tate Modern security deposit is financed by donations to the Tate Modern project from, inter alia, the Millennium Commission, the Urban Regeneration Agency ('English Partnerships'), and a number of private sector donors.

The finance lease structure secured a number of benefits to the project including improved project cash flow and the recovery of all input VAT on development expenditure.

As at 31 March 2006 £120,650,000 (£120,650,000 in 2004-05) has been capitalised in respect of the Tate Modern development; this has been revalued to £133,698,000 in 2005-06 to reflect the present value of Tate's obligations under the lease (£131,998,000 in 2004-05). Depreciation is provided over the remaining term of the lease, which stands at 96 years at the end of 2005-06. During the year the lease finance charge was £5,941,000 (£5,583,000 in 2004-05).

Tate will meet these obligations out of revenue including interest accruing to the Tate Modern security deposit. The lease agreement includes options to commute future rental obligations at various points in the primary rental period.

18. London Development Agency grant

In March 2006 Tate was awarded a grant of up to £7 million from the London Development Agency (LDA) to facilitate the surrender by EDF Energy of the western half of the switch station to the south of Tate Modern, following its upgrade and replanting. This will enable Tate to bring the site of the derelict and unoccupied oil tanks, together with the western end of the switch house, into public use as part of a further development at Tate Modern. The grant will be utilised to reimburse EDF Energy for the costs of the works required to free the land for surrender.

The grant is payable in instalments (the first £1.5 million in 2005-06) and is conditional on Tate meeting set criteria by certain dates. As part of the agreement the LDA has taken a charge over part of the Tate Modern site. If the criteria are not met the grant must be repaid or the land subject to the charge passed over to the LDA. The key criteria are that Tate must obtain planning consent for the development by 30 June 2009 and the work must be completed by 31 December 2016.

19. Related party transactions

Tate is a Non-Departmental Public Body whose parent department is the Department for Culture, Media and Sport. The Department for Culture, Media and Sport is regarded as a related party. During the year, Tate had a number of transactions in the normal course of business and at full arms length with the Department.

Tate received grants from the Heritage Lottery Fund, the lottery body administered by the National Heritage Memorial Fund (NHMF).

The National Gallery and Tate Boards have an agreement, reached in 1997 and renewed in 2002, that the dividing line of the National Gallery's and Tate's responsibilities in respect of the scope of their Collections of Foreign art should be circa 1900. Accordingly a group of works has been lent by Tate to the National Gallery and vice versa.

Tate has loaned works of art to the following organisations during the financial year 2005-06, which have the Department for Culture, Media and Sport as a parent Department:

- British Museum
- English Heritage (Kenwood House; Ranger's House, Blackheath)
- Imperial War Museum
- National Gallery
- National Maritime Museum
- National Museums Liverpool (Lady Lever Art Gallery; Walker Art Gallery)
- National Portrait Gallery
- Victoria & Albert Museum

Tate has borrowed works of art from the following organisations during the financial year 2005-06, which have the Department for Culture, Media and Sport as a parent Department:

- Arts Council England
- British Library
- British Museum
- English Heritage
- Imperial War Museum
- National Gallery
- National Maritime Museum
- National Museums Liverpool
- National Portrait Gallery
- Sir John Soane's Museum
- Victoria & Albert Museum

As well as being Trustees of Tate: Professor Dawn Ades was a Trustee of the National Gallery and a member of the DCMS Advisory Panel; Victoria Barnsley is a Trustee of the National Gallery; Patricia Lankester is a consultant to the Heritage Lottery Fund; Professor Jennifer Latto is chairperson of the Heritage Lottery Fund CW Committee; Jon Snow is a Trustee of the National Gallery and John Studzinski is a Trustee of Sir John Soane's Museum.

20. Financial instruments

FRS 13, *Derivatives and Other Financial Instruments*, requires disclosure of the role which financial instruments have had during the period, in creating or changing the risks Tate faces in undertaking its activities.

As permitted by FRS 13, debtors and creditors which mature or become payable within twelve months of the Balance Sheet date have been omitted from this note.

Liquidity risk

Tate does not make use of long-term debt or borrowing facilities, with the exception of the Tate Modern finance lease. As a result it is not exposed to significant liquidity risks.

Interest rate risk

Tate has long term financial liabilities in respect of the finance lease for Tate Modern, the details of which are set out in Note 17.

As at 31 March 2006, Tate held £19,551,000 (2004-05 £19,328,000) in cash and bank deposits, £2,145,000 (2004-05 £1,080,000) of which was invested at the Office of the Paymaster General, £15,833,000 (2004-05 £16,770,000) of which was invested at floating rates, the remaining £1,573,000 (2004-05 £1,478,000) was held in cash and non-interest-bearing accounts. Tate is therefore not exposed to significant interest rate risk.

Foreign currency risk

Tate's exposure to foreign currency risk is not significant.



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