

National Portrait Gallery Annual Report and Accounts 2006-07

HC 792 (06/07)

ISBN 978 0 10 295071 7

CORRECTION

Page 35

The date following John Bourn's signature should read:
17 July 2007

September 2007
London: The Stationery Office

MUSEUMS AND GALLERIES ACT 1992

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

National Portrait Gallery Annual Report and Accounts 2006-2007

ORDERED BY THE HOUSE OF COMMONS TO BE PRINTED 23 JULY 2007

© Crown Copyright 2007

The text in this document (excluding the Royal Arms and departmental logos) may be reproduced free of charge in any format or medium providing that it is reproduced accurately and not used in a misleading context. The material must be acknowledged as Crown copyright and the title of the document specified.

Any enquiries relating to the copyright in this document should be addressed to The Licensing Division, HMSO, St Clements House, 2-16 Colegate, Norwich NR3 1BQ. Fax: 01603 723000 or e-mail: licensing@cabinet-office.x.gsi.gov.uk

The National Audit Office
scrutinises public spending
on behalf of Parliament.

The Comptroller and Auditor General,
Sir John Bourn, is an Officer of the
House of Commons. He is the head of the
National Audit Office, which employs some
800 staff. He, and the National Audit Office,
are totally independent of Government.

He certifies the accounts of all Government
departments and a wide range of other public
sector bodies; and he has statutory authority
to report to Parliament on the
economy, efficiency and effectiveness
with which departments and other bodies
have used their resources.

Our work saves the taxpayer millions of
pounds every year. At least £8 for every
£1 spent running the Office.

This account can be found on the National Audit Office web site at
www.nao.org.uk

Contents

	Page
Trustees' and Accounting Officer's Annual Report	2
Remuneration Report	26
Statement of Trustees' and Director's Responsibilities	30
Statement on Internal Control	31
The Certificate and Report of the Comptroller and Auditor General	34
Statement of Financial Activities	36
Balance Sheet	37
Cash Flow Statement	38
Notes to the Accounts	39

Trustees' and Accounting Officer's Annual Report

Introduction

The Trustees of the National Portrait Gallery have pleasure in submitting their Annual Report and Accounts for the year ended 31st March 2007. The Accounts have been prepared in a form directed by the Secretary of State for Culture, Media and Sport with the consent of the Treasury in accordance with sections 9(4) and 9(5) of the Museums and Galleries Act 1992 and are presented in accordance with the reporting requirements of the Statement of Recommended Practice (revised 2005), *Accounting and Reporting by Charities*.

The Annual Report sets out:

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

Structure, Governance and Management (Including Administrative Details)

Constitution

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

History and Background

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

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

The Primary Collection of paintings, sculpture, miniatures, drawings, prints and photographs contains some 10,750 portraits of the most famous people in British history. Of these more than 4,100 are paintings, sculptures and miniatures, approaching 60% of which are regularly displayed at the National Portrait Gallery or elsewhere. In addition, there are some 6,500 works on paper, shown on a rotating basis of about 300 items a year. Normally items not on display can readily be made available for viewing via the Collections Manager. The Collection is also made widely available via the Portrait Explorer in the IT Gallery, by CD-Rom, on the internet (at npg.org.uk) and in Gallery and other publications.

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

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

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

Structure, Governance and Management

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

A list of Trustees during 2006/07 and up to the date on which the accounts were signed is at page 27. Following their appointment, new Trustees are given a Trustees handbook, policy papers and a full induction about the National Portrait Gallery and their terms of appointment, duties, rights and responsibilities. There is a Register of Trustees' Interests, disclosing details of company directorships and other significant interests held, which is open to the public and can be accessed in The Heinz Archive and Library.

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

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

Details of the Gallery's external advisers are at page 27.

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

Objectives

Objects and Key Policies of the Gallery

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

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

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

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

The National Portrait Gallery is an equal opportunities employer. The development of working practices and a working environment that facilitate this, in particular with regard to the employment of disabled persons, are key objectives, as embodied in its combined Equality Scheme currently being finalised (see page 21). The Gallery has a comprehensive policy and training programme aimed at securing the health, safety and welfare of its employees.

Gallery employees are involved in the development of policies, strategic plans and performance targets through corporate planning and performance management procedures. Management meetings and newsletters provide a regular means for the consideration of issues and dissemination of information to staff throughout the year. Regular meetings between staff and management ('Whitley Council' meetings) provide a forum for discussion of staff issues. The Gallery continues to receive valuable support from volunteers, especially in the Archive and Library and Learning and Access (detailed on page 21).

Objectives and Targets

The three-year Funding Agreement with the Department for Culture, Media and Sport for 2005 to 2008 includes seven key targets relating to audiences, income generation and efficiency. Funding Agreement targets are reviewed annually and revised where appropriate. Reference is made to these targets throughout the Annual Report with the Gallery's achievement against the 2006/07 targets (with comparators for previous years, where appropriate) detailed on page 29.

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

Charitable activities

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

Increasing and developing resources

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

Activities, Performance and Planned Future Developments

(1) Extending and broadening audiences

150th Anniversary

In 2006, the 150th anniversary of the Gallery's foundation provided an exceptional opportunity to celebrate the past, to enhance the Gallery's reputation and fundraise and to look to the future with determination. The Anniversary (sponsored by Herbert Smith LLP) was marked by many important events mentioned throughout this Report, ranging from a special edition of Royal Mail stamps, featuring ten portraits epitomising all aspects of the Collection, to winning the 'Visit London' Visitor Attraction of the Year Award in November 2006.

Visitor numbers

The programme of exhibitions, displays and activities continues to be hugely popular. Visitor numbers for 2006/07 were a record 1.66 million, representing 8% growth on the 1.53 million visits received in 2005/06 and exceeding the 2006/07 target of 1.55 million in the Funding Agreement with the Department for Culture, Media and Sport. The Gallery was one of the top ten most visited UK attractions in the 2006 survey by the Association of Leading Visitor Attractions. Including the 219,000 visits made to national partners (190,000 in 2005/06), total visitor numbers were 1.87 million, compared to 1.72 million in 2005/06.

David Hockney Portraits attracted over 151,000 visits, the highest average daily attendance ever for a ticketed exhibition at the Gallery, the *BP Portrait Award* exhibition received the most numbers of visits in its history (over 197,000) and *Icons and Idols: Commissioning Contemporary Portraits* welcomed 211,000 visits, almost the Gallery's highest ever visitor numbers to a non-charging exhibition. Further details of the Gallery's exhibitions and displays programme are provided on pages 12 to 14.

The intimate and personal nature of the Gallery's spaces, combined with the variety of work on permanent display and interest in the temporary exhibitions, encourages many visitors to return. The ratio of first-time to repeat visitors, according to fieldwork by Morris Hargreaves MacIntyre, increased to 32 to 68 in 2006/07 compared to 21 to 79 in 2005/06, which is attributable to the increased profile generated by the 150th Anniversary and the diversity of the programme. Enjoyment and satisfaction levels remain very high; almost all (97%) of participants questioned in visitor research said they would be likely to recommend the Gallery to their friends. However the Gallery is also successful in attracting new audiences, which is particularly well illustrated by the visitors attending the exhibitions created from the Reaching Out, Drawing In project, which attracted higher than average visitors who were new, aged twenty-four or under and/or from an ethnic minority background (see page 6).

Contributing to the repeat visits are the Gallery's valued Members, whose numbers were boosted in 2006/07 by the success of *David Hockney Portraits*, improved retention rates and the piloting of a Members' desk, increasing by an impressive 43% to 3,500 at 31 March 2007 from 2,450 at 31 March 2006. For the forthcoming year the Gallery will be targeting its marketing at visitors, as our aim is to recruit 2% of those purchasing exhibition tickets, and to raise awareness of membership with customers of the shops, Portrait Restaurant and Portrait Café.

There were 107,000 visits during the year by adults in socio-economic categories NS-SEC groups 5-8 (defined by the Office of National Statistics as lower supervisory and technical, semi-routine and routine occupations, never worked or long-term unemployed), compared to 75,000 visits in 2005/06; the total also exceeded the 77,000 anticipated in the Funding Agreement by 39%. There were 85,000 visits by children, a 5% increase compared to the 81,000 visits in 2005/06 and just meeting the 85,000 target under the Funding Agreement.

The Gallery continues to offer learning opportunities to a wide range of audiences, including school groups, families, adults, academic groups and visitors with disabilities. In all, there were 87,000 participations by learners in on-site and outreach classes, lectures and other activities during 2006/07 (a 10% increase on the 79,000 participations in 2005/06). Against the 40,000 target in the Funding Agreement, the total number of children participations in organised educational programmes during 2006/07 was 42,400 (a 5% increase from 40,300 in 2005/06).

Complementing the public programme, the Gallery's website continued to grow in popularity and to improve access to the Gallery's collections and work. The website registered almost 10 million user sessions by over 4.6 million people during 2006/07, a 35% increase on the previous year's figure of 7.3 million and comfortably achieving the Funding Agreement target of 6.5 million. The Gallery has the fourth most visited art website in the country (source: Hitswise) with 68% of all visits being linked to searching the collection and 17% of hits using the visual disabilities version of pages.

Market research and evaluation

The Gallery undertook a review of its research needs and in May 2006 Morris Hargreaves McIntyre were commissioned to carry out a three-year programme of research. The new year-round exit survey provides consistent seasonal data and information on exhibition visitors, and a major qualitative project has included mystery visits, focus groups and observation work.

Results indicate that the Gallery is attracting a younger audience: 24% were aged seventeen to thirty-four, an 11% increase on 2005/06. The Gallery also received a higher proportion of overseas visitors in the summer months (38%), a 12% year-on-year increase.

Major Underground poster, press and radio advertising campaigns were undertaken for the Gallery's exhibitions and special promotional activities included partnerships with *The Times*, Caffè Nero, the Royal Mail and Gap. Among the new online activity was the creation of a special microsite and online advertising for *Face of Fashion*. Visitor research showed that a significant proportion of visitors are finding out about the Gallery through marketing channels; 35% had seen the Underground posters and 45% other forms of advertising. The design of the quarterly talks and events booklet was updated and a new generic leaflet produced and distributed. The e-newsletter attracted over 34,000 subscribers, an increase of 31% on 2005/06.

Late night opening

Weekday evenings provide an opportunity for people who cannot visit during the day to view exhibitions and the Collection. On Thursdays they can attend one of the regular lectures or evening talks, high-profile occasions featuring well-known artists, writers, critics and commentators. On Fridays they can listen to one of the Gallery's popular evening music events, performed both by well-known and up-and-coming professional musicians and ensembles. During the year this programme has seen a wonderful range of events, among them the performance of four works commissioned with support from the Performing Right Society Foundation to mark the 150th Anniversary, as well as a welcome return visit from The Shout, who composed a special birthday song.

The Thursday evening programme featured several events linked to the Gallery's Anniversary, including a series of talks organised with the *Times Literary Supplement* exploring the lives of writers such as George Bernard Shaw and Samuel Beckett, born in 1856 and 1906 respectively, and monthly screenings of film portraits of British artists in collaboration with the Artists on Film Trust.

The Gallery is currently seeking sponsorship in order to develop and market further the possibilities of late night openings.

Families and young people

The numbers of families attending activities and visiting the Gallery increased from 2,835 in 2005/06 to 3,869 in 2006/07, and the programme was boosted by several new initiatives. We developed new events linked to national initiatives such as the Chinese New Year and The Big Draw.

Our families outreach work has included an animation project focusing on the theme of Festivals and Celebrations made by family learning groups in the borough of Haringey. This marks the last of the current projects that have been funded by the Rayne Foundation over the past three years. A new partnership has been forged with Camden Council's Family Learning Team to work together on another animation project with Year 6 children and their parents or carers. This is a pilot project funded by the McAslan Trust, beginning in April 2007.

Teenagers and young people represent another priority audience for the Gallery and we have spent the past year developing new programmes for fourteen- to eighteen-year-olds involved in out-of-school learning. The core programme consists of monthly weekend workshops called First Sundays, and termly after-school clubs called Afternoon Art.

Projects have included work with fourteen- to sixteen-year-olds at Forest Hill Boys' School and Quintin Kynaston School on a display of images and text inspired by the narratives and images in *Between Worlds: Voyagers to Britain 1700-1850*. Working with the artist Gayle Chong Kwan, the students created photographic self-portraits that illustrate the stories behind their own and their families' journeys from other parts of the world.

Adults, schools and colleges

The Adult programme continues to provide a large number and variety of talks, lectures and discussions related to Gallery exhibitions and displays, and these attracted over 20,000 visitors last year. The regular daytime programme of informal talks and weekly lectures is supplemented by weekly Thursday evening events.

The Gallery runs a busy programme of conferences and symposia for academic and specialist audiences, and a variety of courses, study days and practical workshops for more general interests. This year's conferences have included contributions from the historians Richard Holmes, Miranda Seymour and Adam Sisman. Courses and study days range from intensive one-day events on topics such as the Pre-Raphaelites, to four-week courses on miniatures and practical weekend painting workshops.

The Schools programme has had another extremely successful year providing primary and secondary talks and workshops on art, history and photography. It has continued to develop themes related to citizenship, which is becoming an increasingly important element within the National Curriculum.

Nearly 42,000 schools students participated in the programme, with an additional 3,500 students taking up video-conferencing sessions. New Teachers' Notes were produced for *David Hockney Portraits* and on Benjamin Robert Haydon's *Anti-Slavery Convention 1840* for the bicentenary of the abolition of the slave trade. The Hockney resources were supplemented by a CD, based on the exhibition's audio guide. New interactive elements were added to the Investigating Drawing online resource, which includes step-by-step drawing demonstrations and instructions by the artist Ron Bowen.

Boosted by the successful public programme and conferences, Learning and Access income increased by 19% compared to 2005/06.

Outside the Gallery

The Access and Outreach programmes provide a variety of workshops and events for socially excluded and disabled children, young people and adults, and have been increasingly successful in developing partnerships with organisations and charities working in these areas. The projects have included a six-month programme of workshops and talks, created by and for Looked After Young People at Barnardo's, based on the *Face of Fashion* exhibition. As a result approximately 90% of the participants expressed an interest in attending the Gallery's mainstream programme for young people.

The Gallery has been working in partnership with MENCAP, secondary SEN (Special Educational Needs) schools and a group of artists to create a series of short animations inspired by the Collection. The project is funded by The Vodafone UK Foundation.

Work with adults has included Gallery tours in partnership with Connect (adults who have suffered from strokes or aphasia), and with the homeless projects St Mungo's and Capital A. Approximately 165 children and young people have participated in the hospital schools programme based at University College and Guy's Hospitals.

A total of 1,561 students in 60 groups were taught in the Gallery's outreach programme (excluding *Reaching Out, Drawing In* and *People, Places and Portraits* – see next page).

The Studio Gallery

The Gallery's *Reaching Out, Drawing In* programme, supported by the Heritage Lottery Fund, is a key part of its outreach and audience development work. *Fame!*, in partnership with the Royal National Institute for the Blind, visually impaired students at Dorton House School, the Hereford College for the Blind and the Phoenix elders' group in Haringey, was created by blind and partially sighted people exploring the theme of celebrity. The exhibition offered a range of innovative techniques for engaging with people with visual impairments: Braille descriptions, a tactile guide line, sound points, audio guides and personal guides. The exhibition received almost 27,000 visits and evaluation of visitors to the exhibition showed that 30% were new visitors and 35% were aged twenty-four or under.

Cherish: Chinese Families in Britain was developed in partnership with the Chinese Arts Centre in Manchester and evolved out of three community-based projects in London, Manchester and Glasgow. The exhibition attracted around 50,000 visits, of whom more than 17% were from an ethnic minority background.

The *Reaching Out, Drawing In* series concludes in 2007, and the Gallery is developing a project and seeking funding to continue to use the Studio Gallery as a focus for community learning projects.

National programme

National partnerships

In June *Making Faces*, the innovative new displays at Beningbrough Hall, opened to the public. The interactive activities and new layered interpretation were an immediate success. Beningbrough saw over 33,000 visitors in the first 5 months following opening. In tandem with *Making Faces* the Gallery and the Yorkshire Country House Partnership worked on a project that culminated in displays of portraits in the houses within the partnership. The displays were also the subject of an academic conference, *Making Faces – New Approaches to Georgian Portraiture*, organised in collaboration with York University. *Icons and Idols*, the Gallery's exhibition about commissioning portraits, was on show at York Art Gallery at the same time.

The displays at Montacute House were enhanced by the portrait, visiting for one year, of the shipwright Phineas Pett, and were accompanied by family activities. Portrait Explorer touchscreens were introduced into the Long Gallery at Montacute House in the summer and have enabled visitors to access further information about the Collection.

Following the successful collaboration between the National Museums of Wales, the Gallery and Bodelyyddan Castle with the exhibition *Faces of Wales* early in 2006, the partners are planning another exhibition, *Visitors and Venice*, in 2007. Both exhibitions are part of the National Museums of Wales's 'Art Share Wales' initiative funded by the Esmée Fairbairn Trust. Bodelyyddan also saw the introduction of new orientation signage by Nick Bell Design.

People, Places and Portraits

The DCMS/DfES National/Regional Museums Partnerships Strategic Commissioning programme has continued to play a large part in developing learning activity and collaborations around the Collection. There were almost 19,000 participations in this programme, including 13,500 children.

Plymouth City Museum and Art Gallery became a new partner in the programme under the new South West link (see below), with a collaborative exhibition of photographs from the Collection by Lord Snowdon. The exhibition included works by some of the artist sitters drawn from collections in the South West and an area showing work produced by participants in the learning programme.

Sheffield Galleries and Museums Trust collaborated on the exhibition *Lady Mary Wortley Montagu: An Extraordinary 19th-Century Woman* and its associated learning programme. A group of young people produced interpretation for the exhibition to appeal to people of their own age, including their own magazine, *M'lady!*

Sunderland Museum and Winter Gardens showed *The World's Most Photographed*. Cases of memorabilia drawn from local collectors and collections relating to the sitters included a pair of boxing gloves signed by Muhammad Ali on his visit to South Shields.

Partnerships with Regional Museums Hubs

The partnership with the North East Regional Museums Hub continued to flourish, with two exhibitions at Sunderland Museum and Winter Gardens. The Gallery set up a new partnership with the South West Regional Museums Hub.

Loans

The Gallery has undertaken a review of its long-term loans and the first phase of research into making further loans. 575 works were on long-term loan. 428 short-term loans were made to 47 venues in the UK and to 33 abroad. These were lent to a wide range of exhibitions from portraits and sculpture for the exhibition *Hogarth* in Paris, London and Barcelona, to Stuart Pearson Wright's pencil studies of contemporary British actors shown at the National Theatre and in the School of Art at Aberystwyth.

Subject Specialist Network

The Gallery and its partners, the National Trust, the North East Museums Hub, the South West Museums Hub and the *Oxford Dictionary of National Biography* were awarded an exploratory grant from the Museums, Libraries and Archives Council for a Subject Specialist Network on Understanding British Portraiture.

Media collaboration

The Gallery continued to build on its collaboration with BBC TWO's arts magazine *The Culture Show* with *Living Icons*, a poll to find the nation's greatest living icon. As well as filming for the programme in the Gallery, a special display and voting box were installed in the Main Hall and IT Gallery. The figure topping the poll, Sir David Attenborough, has been photographed for the Collection by Richard Boll, the winner of the 2006 *Photographic Portrait Prize*.

During the summer, to celebrate our 150th Anniversary, BBC Radio Four broadcast an afternoon series of five interviews on some of the Gallery's most iconic portraits. Introduced by the Director Sandy Nairne, the programmes matched spokespeople from the Gallery with well-known visitors to it such as Jeremy Paxman, Toyah Wilcox and the film director Gurinder Chadha.

The Times and *The Sunday Times* continued their media partnership for the Anniversary year; this was reflected in substantial coverage for both *Angus McBean: Portraits* and *David Hockney Portraits*. To coincide with *Face of Fashion* the ongoing collaboration with *Vogue* led to the publication of a new commissioned portrait of Kate Moss by Corinne Day. A high media profile was maintained for exhibitions, displays and unveilings, with regular features in national newspaper supplements, news stories in broadsheet and tabloid newspapers and reports on radio and television. International coverage featured in a wide range of media titles, from *Le Figaro* and *Le Monde* to *Der Spiegel* and the *New York Times*. CBC and CNN TV and Radio frequently covered Gallery activities.

Visitor Services

In awarding the Gallery the 'Visit London' Visitor Attraction of the Year the judges recognised the welcoming environment it provides. The record number of visitors presents its own challenge to the Visitor Services team but recent research shows that enjoyment and satisfaction levels remain high (according to fieldwork carried out by Morris Hargreaves Macintyre 64% of visitors feel Visitor Services staff are very or fairly good). The Gallery actively encourages visitor feedback with both general and exhibition-specific comment forms.

The Visitor Services team has continued to develop the quality and range of its facilities during 2006/07, with increased sales points for exhibitions, printed information in several languages, including Chinese, and audio guides in French, Spanish and Japanese. The team assisted with the individual giving campaign in support of the John Donne appeal, to which visitors contributed £18,000 in seven weeks, after the Gallery adopted the new scheme of recovering Gift Aid on exhibition admissions in April 2006.

(2) Developing the Collection

Acquiring great and significant portraits for the Collection has become increasingly dependent on engaging public support as portraits become more expensive. Of particular note was the generous continued support of The Art Fund. We are also especially grateful to the National Heritage Memorial Fund and other major donors to the John Donne appeal, including Linda L. Brownrigg, Sir Harry Djanogly, CBE, and the Rt Hon. Lord Harris of Peckham, and many other supporters, including members of the Donne family.

Portrait Fund

The Gallery's Portrait Fund (the object of which is to assist the Gallery to acquire important portraits for the Collection and to cover the cost of related research, conservation, display and interpretation) made significant progress during the year, thanks in large part to an exceptionally generous lead gift pledged by Sir Christopher Ondaatje and family to encourage matching support. A special dinner hosted by Professor David Cannadine showcased the announcement of this gift and celebrated the launch of a new group of individuals, the Patrons of the Portrait Fund. Amelia Fawcett and Simon and Midge Palley became the first of these Patrons and we look forward to building upon this support in the next year.

The fund operates under its own trust deed; the three founding Trustees of the Portrait Fund are David Cannadine, Amelia Chilcott Fawcett and Lady Douro, from the Gallery's own Board of Trustees. The Gallery was very pleased to welcome in 2006/07 Sir Christopher Ondaatje (a Gallery Trustee) and Matthew Freud as new Trustees of the Portrait Fund.

The first contribution from the Portrait Fund was towards the acquisition of the important portrait of John Donne (see below).

For further information about supporting the Gallery and the Portrait Fund please contact Pim Baxter, Communications and Development Director.

Acquisitions

The outstanding acquisition of the year was the evocative image of John Donne, poet and divine, painted c.1595 by an unknown artist. It was acquired after a major appeal which was marked by the generosity of numerous supporters, led by the Art Fund and the National Heritage Memorial Fund, and a very large number of donations from Gallery visitors.

Portraits of three major figures long sought for the Collection were acquired: Lady Jane Grey, a memorial image, purchased with help from the proceeds of the 150th Anniversary gala, Admiral Sir George Rooke by the Swedish-born Michael Dahl, and the eighteenth century philosopher Thomas Paine by the French artist Laurent Dabos. Another sought-after figure, Sir Edward Heath, was represented by the loan of a portrait by Derek Hill from the Sir Edward Heath Charitable Foundation.

Several fine late Victorian drawings were acquired, including Lady Coleridge's profile of her friend William Butterfield, the architect, Grace Black's sketches of social worker Nelly Benson and socialist writer Eleanor Marx, and a pair of images, Edward Stott by Philip Wilson Steer, and Steer by Stott, given by Arthur Grogan. Two groups of caricatures were added to the Collection: the earlier by Powys Evans, which included a drawing of the poet T.S. Eliot given by Michael Meredith and various images from the 1920s purchased with help from the Elizabeth Weisz Bequest; and the later group by Barry Fantoni, representing media figures from the 1960s and 1970s, given by the artist.

Historic photographs included an anonymous early albumen print of the scientist Lord Kelvin, Gillman & Co.'s photograph of Oscar Wilde with Lord Alfred Douglas in 1893, literary figures from the early twentieth century by James Craig Annan, purchased with help from the Dame Helen Gardner Bequest, and images of British visitors to New York in the 1930s and 1940s by Carl Van Vechten.

R.B. Kitaj's powerful *Self-Portrait (Hockney Pillow)* was purchased with generous help from The Art Fund. Other contemporary acquisitions included the loan of Sir Anthony Caro's bronze head of the lawyer and political adviser Lord Goodman, Sarath Chandrajeeva's bronze bust of the philanthropist Sir Christopher Ondaatje, given by the sitter, Frederick Cuming's oil head of the physicist Stephen Hawking, given by the sitter, and Jonathan Yeo's painting of the global media executive Rupert Murdoch. All four of these are by distinguished living artists previously unrepresented in the Collection.

Commissions

The *BP Portrait Award* exhibition continues to be a great source for talented young portrait painters, some of whom go on to paint commissioned portraits for the Gallery. Charlotte Harris, who won first prize in 2003 while still a student, painted an affectionate portrait of Dame Vivien Duffield, the philanthropist who heads the Clore Duffield Foundation. Emma Wesley, a regular exhibitor, was commissioned to paint Lance Corporal Johnson Beharry, the young Grenadian soldier who was awarded the Victoria Cross for his outstanding acts of bravery in Iraq. Appropriately, this impressive portrait was painted in the year that both the Gallery and the Victoria Cross Association celebrated their 150th anniversaries.

JPMorgan continued their generous support through the Fund for New Commissions, enabling the Gallery to realise an ambitious portrait of the Olympic oarsman Sir Steven Redgrave by Dryden Goodwin. Made up of twenty-five meticulously drawn portraits and an animated video piece, the portrait communicates the powerful combination of mental stillness and dynamic movement required to win a race. A major group commission taken by the photographer Julia Fullerton-Batten of influential figures who have shaped healthcare was completed with help from the Deloitte Acquisition Fund and displayed in June 2006.

Photographs

Photograph displays on the Balcony Gallery have provided the opportunity to show recent acquisitions and to acquire additional material. For *Beatles on the Balcony* we were glad to receive ten important Beatle portraits from the Estate of Linda McCartney, as well as other significant additions from photographers such as Harry Goodwin, Frank Herrmann, Jim Marshall, Humphrey Ocean, David Redfern and Michael Ward. A collaborative commission with photographer Emma Hardy and writer Jenny Dyson led to the acquisition of nineteen portraits of high-achieving teenagers for a display entitled *Exceptional Youth*.

Victorian acquisitions included a gift from Anne Olivier Bell, which contained portraits of the photographer Julia Margaret Cameron, the naturalist and flower painter Marianne North and the author and mountaineer Sir Leslie Stephen. Other acquisitions included a cabinet portrait of the poet and painter Dante Gabriel Rossetti, the critic John Ruskin and the writer and painter William Bell Scott taken by William Downey in 1863 and studies of previously unrepresented individuals such as the first Indian-born subject to become a British MP, Dadabhai Naoroji; Alicia Little, the author and traveller who campaigned against foot-binding in China; and Dorothy Pattison, the Anglican nun and nurse better known as Sister Dora.

Recently deceased subjects remembered by gifts include the paediatrician and government adviser Lord Chan, a photograph given by the Pearl Foundation; an intimate study of photographer Bob Carlos Clarke taken by his daughter Scarlett when she was twelve; and Richard Whiteley, the popular presenter of *Countdown*, given by Harry Borden.

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

The Heinz Archive and Library

An important gift of forty folio-sized albums, containing photographs of portraits painted by Frank Owen Salisbury, was offered by the artist's grandson Richard Norris. The albums, the first eight of which were received in 2006, were assembled by Salisbury and will join the six volumes of his correspondence purchased in 1997. Also received was a small sketchbook by Sir George Scharf, dated 1854, given by Ann Mitchell for addition to the extensive archive of Scharf's private papers held by the Gallery.

Two albums of lithographic caricatures by Mark Wayner were purchased, *Celebrities in Caricature*, 1931, and *Celebrities Today in Caricature*, c.1943, including lively images of the conductors Sir Henry Wood and Sir Thomas Beecham, the literary figures G.K. Chesterton, George Bernard Shaw and Dame Edith Sitwell, the harmonica player Larry Adler and the actress Dame Sybil Thorndike. Gifts included an engraved portrait of the printseller Alexander Beugo, 1814, donated by Jacob Simon, and a varied group of twenty-six prints given by Julian Perfect.

Care of the Collection

A high level of activity was maintained throughout the year, which began with the final preparations for the redisplay at Beningbrough Hall and concluded with the planning of *Great Britons: Treasures from the National Portrait Gallery, London*, travelling to the National Portrait Gallery in Washington, DC. This was a high-profile project for the Gallery and involved close collaboration between curators and staff of the collections and loans management, art handling and conservation departments.

A large number of works were prepared for exhibition within the Gallery, for Regional Partners and for loan to other exhibitions and the national programme. The frame conservation team advised and made new frames for acquisitions and commissions, most notably the portraits of John Donne and Sir Steven Redgrave. The frame conservation internship programme, supported by the Pilgrim Trust, successfully concluded its final year – offering a unique opportunity to study the Collection. A condition survey of small sculptures was completed and next year the Gallery will embark on condition surveys of works on display.

The art handling team have managed a rigorous programme of changing displays and exhibitions over the year, in particular the *David Hockney Portraits* exhibition, which involved the Wolfson Gallery and the whole of the ground-floor contemporary galleries.

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

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

Exhibitions

The programme, in the Gallery's 150th Anniversary year, has been particularly successful and drawn not only very high visitor figures but significant press and TV coverage. We have continued to collaborate both nationally and internationally in a very positive and effective manner.

Wolfson Gallery

Searching for Shakespeare (sponsored by Credit Suisse), part of the Gallery's 150th Anniversary celebration, closed in May 2006, having received 28,000 visits. Focusing on the playwright's life and portraiture, the exhibition presented new technical analysis and research on the six 'contender' portraits, including the 'Chandos' portrait, casting new light on the search for Shakespeare's authentic likeness.

The *BP Portrait Award 2006* achieved the high number of 1,100 entries, of which fifty-six were shown in the exhibition, with the first prize going to Andrew Tift for *Kitty*. The *BP Travel Award 2005* winner, Joel Ely, presented his portrayals of members of Txoko Mallona, a Basque gastronomic society. The exhibition received 197,687 visits, the highest ever.

The autumn saw the opening of the *David Hockney Portraits* exhibition (sponsored by Burberry), co-organised with the Museum of Fine Arts, Boston, in conjunction with the Los Angeles County Museum of Art. It involved a significant collaboration with the artist and was a huge success, attracting much critical acclaim, with 151,555 visits (the highest ticketed exhibition of paintings in the Gallery's history) and excellent sales of the catalogue and retail items. The exhibition won Second Place Award for Best Monographic Museum Show in Boston at the Fifth Annual AICA/New England awards ceremony.

Face of Fashion: Mert Alas & Marcus Piggott, Corinne Day, Steven Klein, Paolo Roversi and Mario Sorrenti (jointly sponsored by GAP and Taylor Wessing) followed in the spring, bringing a very different flavour to the programme, and involving five contemporary fashion photographers whose work is best known in the realm of fashion magazines. David Adjaye Associates designed the exhibition and Thomas Manss designed the graphics and the catalogue. 66,213 visits had been received by the closure of the exhibition on 28 May 2007, including a far higher than normal proportion of visitors aged 20 to 34.

Porter Gallery

Icons and Idols: Commissioning Contemporary Portraits celebrated the Gallery's role over the past twenty-five years in commissioning portraits of celebrated individuals for the Collection. By its closure in June 2006, it had attracted 211,264 total visits, almost the highest ever for a non-charging exhibition.

Angus McBean: Portraits opened in July. It showcased the versatility and skill of McBean, with his unique approach to photographing the stars of the time in surrealist settings. The exhibition was the first museum retrospective of the photographer since his death in 1990 and received 33,647 visits.

The *Photographic Portrait Prize 2006* received over 2,000 entries (over 5,000 photographs and prints), with sixty being selected for the exhibition. The first prize was awarded to Richard Boll for *Joe* and the Deloitte Award for the best portrait taken by a photographer aged twenty-five or under was awarded to Erin Kornfeld for *Prudence and Julie*. The exhibition received 87,872 visits (compared to 184,000 in 2005/06), after the introduction of a £1 entrance fee; a sponsor is being sought for this annual exhibition.

Between Worlds: Voyagers to Britain 1700–1850 opened in March 2007 (with a grant from the Government of Canada) and explored the diverse stories of travellers to London between 1700 and 1850 from North America, Africa, the South Pacific and India. The loan of the *Four Indian Kings* by John Verelst from the Portrait Gallery of Canada was an important contribution.

This year's exhibition programme has been particularly important for the Gallery, as a number of major and high-profile exhibitions were organised and strong collaborations with prominent bodies and institutions. Exhibition entrance and touring income increased by 79% compared to 2005/06, largely due to the exceptionally high numbers of visitors to *David Hockney Portraits*.

The 2007/08 programme of loan exhibitions contains further outstanding opportunities for the public to enjoy historical, contemporary and photographic portraiture, including *Pop Art Portraits*, *Vanity Fair Portraits: Photographs 1914-2007* and *Brilliant Women: 18th-Century Bluestockings*.

The galleries and displays

Following a review last year of the use of the Gallery's display spaces, greater emphasis has been given to a range of changing displays embracing visiting portraits and interventions within the Collection, designed to enhance understanding of portraiture. On the Balcony Gallery, a series of visiting portraits were shown, commencing with Andy Warhol's *10 Portraits of Jews of the 20th Century*, followed by Francis Bacon's *Portrait of Gilbert De Botton Speaking* and Jim Dine's *The Artist's Face*. On the first-floor landing, interventions have included a display of recent commissions and acquisitions, followed by *Clear Vision: Brockhurst, Frampton and Kelly*, bringing together work by three artists who achieved distinction in the 1930s.

The Gallery's 150th Anniversary displays continued across the Collection until summer 2006, notably an illustrated timeline, *150 Years: The National Portrait Gallery 1856–2006*, and the *Portraits, People and Abolition* trail which marked the bicentenary of the parliamentary Act to abolish the slave trade in Britain in 2007.

The programme of changing displays of works on paper is designed to show the strengths of the Gallery's collection of drawings, prints and photographs. On the top floor, *Pulling Faces: Caricature in 18th-century England* was followed by another eighteenth-century display devoted to Thomas Frye's atmospheric mezzotints.

On the first floor, various recent acquisitions were shown, including Victorian photographs by Elliott & Fry and two groups of twentieth-century photographs by John Gay and by Walter Benington. Other displays featured little-known works from the nineteenth century including *Chartist Portraits* and *John Linnell: Portraits*, and from the twentieth century *Sir Benjamin Stone's Parliamentary Pictures* and *Women Writers*.

On the Balcony Gallery, *The Beatles on the Balcony* celebrated defining images of the band by leading photographers. This was followed by *Photographs 1965–2006*, focusing on works by Jorge Lewinski, Bob Collins and other leading photographers, and including new photographs of high-achieving teenagers by Emma Hardy, *Exceptional Youth*. From April 2007, the Balcony is being re-hung and a larger space devoted to the display of painted and sculpted portraits from the 1960s to the 1980s.

On the ground floor, two Gallery photographic commissions were shown: *A Picture of Health*, photographs by Julia Fullerton-Batten, supported by Deloitte, and *Faith and Church*, portraits by Don McCullin, representing leaders of prominent faiths in Britain. *Individuals: 20 Portraits from the Gap Collection* was shown alongside the exhibition *Face of Fashion. Benjamin's Britain*, a group of photographs from the Gallery and other collections, accompanied by poetry and text, was created by poet and author Benjamin Zephaniah. *Blair at War*, photographs by Nick Danziger, provided an unprecedented insight into a Prime Minister facing the option of going to war in April 2003.

In the Bookshop Gallery, *Mostly Women*, photographs by Michael Ward, was followed by *Pet Shop Boys*, both displays coinciding with the publication of new books.

Exhibition and display sponsorship

This was another successful year for exhibition sponsorship, with income increasing by 32%, which saw the beginning of new partnerships, the ending of existing ones and the continuation of long-term collaborations. The three-year partnership with Deloitte as the Gallery's Contemporary Photography Displays Partner came to an end in autumn 2006. This programme enabled the Gallery to grow its collection of photographic portraits, and the Development team are working to find new support for photographic commissions and displays.

Gap became first-time supporters as the co-sponsors of *Face of Fashion*, with Taylor Wessing. Creative cross-promotions included a limited-edition exhibition (Product) RED T-shirt sold in aid of the Global Fund and the Gallery which greatly enhanced this partnership for both parties. *The Times* and *The Sunday Times* jointly supported the Gallery for the first time as Anniversary Media Partners.

BP confirmed its ongoing title sponsorship of the *BP Portrait Award* for the years 2007–2011, showing a strong commitment to supporting portraiture in the coming years. Burberry, previous sponsors of *Mario Testino Portraits* in 2001, returned as the sponsor of *David Hockney Portraits*, hosting a glamorous, high-profile opening party. Herbert Smith, the past sponsor of two major Gallery exhibitions, became the 150th Anniversary Partner, providing vital support during this special year. Arts & Business New Partners funding was awarded to both the sponsorships by Herbert Smith (£13,000) and the Taylor Wessing (£5,000), enabling staff activities and community outreach projects to take place, greatly enriching both partnerships.

Interpretation

Interpretation is a core part of the Gallery's work and an area that we have been particularly keen to develop. This year saw the appointment of the first Interpretation Editor, a new post with responsibility not only for editing all the captions and wall texts but for extending the range of interpretation to include audio and electronic media where appropriate. The David Hockney exhibition was accompanied by an extremely popular sound guide that included interviews with the artist and some of his sitters, and the Gallery created a short, free audio tour for *Face of Fashion* which could be downloaded from the Gallery's website.

To mark the 2007 bicentenary of the Act of Parliament abolishing the slave trade in Britain, the Gallery commissioned a new Gallery Trail, entitled *Portraits, People and Abolition: A Journey through the National Portrait Gallery Collection*. Researched and written by Dr Caroline Bressey of University College London, this trail consisted of additional labels highlighting key individuals, ranging from Elizabeth I to William Wilberforce, who were involved in slavery and the abolition of the trade.

Interpretation projects for the coming year include the development of Family Labels and an online interactive portrait drawing activity for families as part of the *BP Portrait Award*, as well as additional web-related interpretation for the *Pop Art Portraits* and *Vanity Fair* exhibitions.

The Learning and Access department has been closely involved in contributing research and ideas for the Learning Online project – a consortium of ten national museums funded by the Treasury Invest to Save budget to develop new e-learning resources for schools and adults.

Digital developments

Website

A new server has provided faster and more reliable access for visitors. As noted under 1) Extending and Broadening Audiences above, the Gallery's site is the fourth most visited art website in the country. More than 4.6 million visitors made nearly 10 million visits, over one third higher than last year. Searching the Collection accounts for most visits – 96,000 portraits (up by 7,000 from 2005/06) are available, 55,000 of which are illustrated (up 6,000). The website now includes acquisition information, Gallery publications in which portraits from the Collection have appeared, links to portraits on loan at Regional Partnerships and elsewhere and a See Also section for related portraits.

The Who's Who feature from the *Portrait Explorer*, where every person in a group portrait can be identified by touching heads on a digital representation of the portrait, has been adapted for the website, firstly for the Abolition of the Slave Trade website feature.

The *BP Portrait Award 2007* has seen 1,300 entries made online – 75% of all applications, a considerable increase on the 2006 total. Data from the entries flows directly into the administrative database used by Exhibitions and Finance to reduce manual keying-in of entries.

1,600 journalists registered to download images for exhibitions and displays (up 113% compared to 2005/06). Subscribers to the e-newsletter increased to 34,000 (an increase of 31% since 2005/06). *David Hockney* and *Face of Fashion* exhibition sales helped lift e-commerce to record monthly levels.

The Portrait Explorer and IT Gallery

Visitors can find out about 26,500 different sitters and artists in 55,000 portraits (an increase of 1,000 and 5,000 respectively since 2005/06). The Portrait Explorer was introduced to Beningbrough Hall and Montacute House in the summer, as well as Plymouth Art Gallery for the *Snowdon: Iconic images* exhibition. The Virtual Portrait activity at Beningbrough allowed visitors to sit for an artist and see their face incorporated into a new portrait – 5,800 virtual portraits have been generated, attached to e-mails sent out to the sitter's contacts, publicising the activity.

Timelines have been developed for the twentieth century and more are under way for the sixteenth to nineteenth centuries, to complete a year-by-year timeline. Developments are also under way to filter search results by gender, time period and medium.

A virtual page-turning presentation of Hockney sketchbooks was integrated into the *David Hockney Portraits* exhibition and a DVD of his sketchbooks could be consulted in the IT Gallery.

Digital images, index cards and the Portrait Printer

In 2006/07 the Digital team provided digital images for 5,000 previously unillustrated portraits. A restructuring of positions has led to new annual targets of double this number, which will further help to reduce the number of still unillustrated portraits.

Work began on the electronic transfer of data from 55,000 Photographs Collection index cards to a FileMaker Pro database. Nearly 15,000 entries have been made in three months. These will be added to the Gallery's collection management database, MultiMimsy, and then the Gallery's website in 2007/08.

The *Portrait Printer* digital print service now has a selection of 45,500 portraits available for customers (an increase of 2,500).

Research programmes

Projects anticipated in the 2005/06 Annual Report have developed well. The major catalogues of *Later Stuarts* and *Later Victorian Portraits* have advanced considerably; we welcomed our first Leverhulme Fellows under the new programme; individual members of staff were able to pursue their research and the Gallery made its first bid for funding from the Arts and Humanities Research Council (AHRC).

The year saw the completion of the entries for all the major sitters, constituting over a quarter of the catalogue, for *Later Stuarts*. This is being prepared by John Ingamells, supported by the Paul Mellon Centre for British Art. Meanwhile good progress is being made on the *Later Victorian Portraits* catalogue. This is being compiled by Carol Blackett-Ord, Jan Marsh and Magda Keaney under the supervision of Peter Funnell, Curator, 19th Century Portraits & Head of Research Programmes, and is funded by the Getty Foundation with additional support from the Paul Mellon Centre. The team is close to completing the entries on artists, architects and art-world figures and preparations are in hand for publishing this tranche of the catalogue online in the coming year.

Two scholars were appointed to the Leverhulme Fellowship in the History of Portraiture: Kate Retford, Lecturer in Art History at Birkbeck College, London, to work on 'The Conversation Piece in Eighteenth-Century England', and Emma Chambers, Curator of University College London Art Collections, to work on a project entitled 'Portraiture and Plastic Surgery: Identity and the Flesh'.

The foundations were laid for the start of the major research project 'Making Art in Tudor Britain', a scientific survey of the Gallery's early collections, being led by Tarnya Cooper, the 16th Century Curator. She also took six months' sabbatical leave to work on a book on sixteenth- and early seventeenth-century citizen and merchant portraits. This was enabled by another aspect of the Getty Foundation project which funds an assistant curator post to release time for curators to conduct research. Funding towards this project was received during the year from the John S. Cohen Foundation, The Mercers' Company and the PF Charitable Trust.

Other significant achievements in research were made during the year by individual members of staff. Sarah Howgate, Contemporary Curator, edited and contributed to the publication for *David Hockney Portraits* and Terence Pepper, Photographs Curator, wrote and researched the text for *Angus McBean: Portraits*. Susanna Brown, Photographs Documentation Assistant, contributed three biographies to the *Oxford Dictionary of National Biography* on photographers well represented in the collection. Lucy Peltz, 18th Century Curator, published 'A Friendly Gathering: the Social Politics of Presentation Books and their Extra-Illustration in Horace Walpole's Circle' in the *Journal of the History of Collections*. Paul Moorhouse, 20th Century Curator, contributed to books on Bridget Riley and John Hoyland and was a member of the commissioning panel for the AHRC Landscape and Environment Programme. Jacob Simon, Chief Curator, produced an online *Directory of Artists' Suppliers and Colourmen, 1650-1939*, available on the Gallery website, the first in a series devoted to the technical and commercial history of art. Clare Gittings, Learning Manager, taught on a new Masters' course at Bath University and spoke at the British Association for the Advancement of Science. Peter Funnell, 19th Century Curator, wrote an article on display at the Gallery in the late 1960s and early 1970s for a forthcoming special issue of *Art History*. Richard Hallas, Head of Frame Conservation, continued valuable research on micro-climate framing for works on panel at Montacute House, one of our Regional Partners, which enables us to maintain the works in improved conditions whilst in the house. Sandy Nairne, Director, gave lectures in New Zealand, Australia and Britain, in relation to the Gallery's 150th Anniversary; he gave the second annual G.F. Watts lecture and was elected an Honorary Fellow of University College, Oxford.

The Gallery continued its long tradition of active collaboration on external research projects, contributing this year, for example, to the Oxford Portraits project and the De László catalogue project. It continued to advise on portrait illustrations for the *Oxford Dictionary of National Biography*.

Cataloguing the Collection

The Gallery continues to invest heavily in cataloguing and digitising the Collection, with any profits from image sales going towards making more of the items available online. Currently, 95,000 portrait engravings and photographs have been catalogued. 100% of the Primary Collection, 27% of the Archive Reference Collection and 26% of the Photography Reference Collection can now be searched on-line via the website. The aim is to have half the reference collection, or some 160,000 portraits, available on the Gallery's database by 2009.

Cataloguing priorities in the Heinz Archive and Library focused on nineteenth-century prints and drawings and a set of 430 engravings by the seventeenth-century printmaker William Faithorne. In addition, work began on the Archive's substantial holding of large-format prints. In January a cataloguer was recruited to list 7,000 prints from an extra-illustrated set of the Rev. James Granger's *A Biographical History of England from Egbert the Great to the Revolution* (1769) and Noble's *Continuation* (1806), which extends Granger to 1727. Both the Faithorne engravings and the extra-illustrated Granger form part of the gift made in 1931 by Mrs Mary Stopford, daughter of the print collector Dr William Fleming of Rowton Grange, Cheshire. In total, 3,475 prints and drawings were digitised, and a further 7,104 reproductions were added to the sitter and artist boxes in the study room.

In the Photographs Collection a further 5,383 items were catalogued. About half of these form part of the Victorian collection of *cartes de visite* albums, supporting the production of the forthcoming *Later Victorian Portraits*. As well as all contemporary acquisitions, other significant collections catalogued include a group of Elliott & Fry exhibition prints of Victorian subjects, works by Cavendish Morton from the early 1900s, an important part of the Benjamin Stone collection covering the years 1897–1906, and the pre-1935 Bassano negatives. In addition, more than 1,100 photographs from the National Photographic Record, many by Godfrey Argent, were catalogued with support from the EP Trust.

Publishing

One measure of the appeal of the Gallery's publishing programme this year is the number of titles whose sales exceeded estimates. Sixteen projects were realised overall, comprising six catalogues, three co-editions, three reprints and three licensing agreements plus a calendar and over 100,000 postcards. Of these, *Angus McBean: Portraits*, *Photographic Portrait Prize* and *BP Portrait Award 2006* all proved so popular that they sold out before the year-end.

The best-selling titles were *David Hockney Portraits* – over 11,000 copies sold at the London exhibition against the estimate of 4,770 copies – and *BP 2006*, with 10,100 copies overall. Both catalogues were singled out for praise in reviews of the exhibitions, not least because of the interpretation their authors gave to the portraits on show; *David Hockney Portraits* was also shortlisted for the British Book Design and Production Awards 2006. Margaret Forster's essay for the BP catalogue was reproduced in *The Guardian*, and Edmund White's essay for *David Hockney Portraits* was the subject of an article about the exhibition, as well as being the basis of a sell-out talk at the Gallery before Christmas.

We will continue to make these valued connections between catalogue content and the interpretation material available online, in the media and through events organised by the Learning and Access department. Indeed, the Gallery has continued its partnership with the Cheltenham Book Festival with two events: Professor Stanley Wells, a contributor to the *Searching for Shakespeare* catalogue, spoke about why we should care what the playwright looked like, and a discussion about *The Portrait Now* book involved the Director Sandy Nairne, actress Fiona Shaw and artist Stuart Pearson Wright. Both events received excellent publicity.

The sales team have ensured that Gallery publications reach distant audiences through e-commerce and at exhibition venues, from the Lady Lever Art Gallery in Liverpool to the Yale Center for British Art in America, and Bendigo Art Gallery in Melbourne, Australia. We have also experimented with new retail opportunities, specifically a concession at the Summer Fair at Olympia for Fine Art and Antiques, and we promoted our list to potential co-publishers at the Frankfurt and London Book Fairs.

Commercial developments include collaborations with other publishers: with Scala to produce *The National Portrait Gallery Book of The Tudors and Elizabeth I*; and with HarperCollins to create a Children's Reading Scheme book, *What Are You Looking At?* Both publishers pay a royalty to the Gallery for the text and images, and we hope these books will enhance understanding and enthusiasm for portraiture with younger audiences.

Strong sales this year have exceeded our forecast, which has enabled the Gallery to support the important titles *Between Worlds* and *The National Portrait Gallery, A Brief History*. Next year the challenge will be to continue to succeed in balancing the need for publications that support our academic profile and exhibition research with those that generate revenue for the Gallery.

(4) Increasing and Developing Resources

Financial summary

The Gallery received a 4% increase in revenue Grant-in-Aid funding and £437,000 capital funding (including a one-off special grant of £87,000 plus £130,000 brought forward from 2007/08 for replacement of boilers) from the Department for Culture, Media and Sport in 2006/07. As the Gallery's Grant-in-Aid funding represents around half of total income (net of direct trading and fundraising costs and excluding income for building projects and donated acquisitions), self-generated income remains crucial to sustaining the breadth and quality of its activities. The Gallery's original target for total net self-generated income was over-achieved by 30% with the majority of individual targets also exceeded, replenishing reserves which enable the Gallery to fulfil its plans for further investment and growth. The target agreed with the Department for Culture, Media and Sport for the 2005-08 Funding Agreement, which comprises income from exhibitions, learning and access, venue hire, trading and catering franchise, net of venue hire and trading direct costs, was over-achieved by 46% (see page 29), primarily due to the success of *David Hockney Portraits*.

Voluntary income

Support from Individuals

The Patrons' group has continued to flourish over the past year and the retention rate continues to be high, with a renewal rate of over 95%. The group has now grown to 110 Patrons, of whom eighteen are Life Patrons.

Events this year have included preview guided tours of all major exhibitions. Patrons enjoyed a 'behind-the-scenes' evening in the Frame Conservation Studio, a morning visit and tour of the Palace of Westminster and a breakfast private view of the Royal Academy of Arts exhibition *Modigliani and His Models*. We continued our very successful series of Patrons' Literary Lunches and were delighted to have Alan Bennett as our guest speaker. Alan read from his recently published diaries, *Untold Stories*, and talked with broadcaster James Naughtie. This was followed by an equally successful and fascinating talk given by one of the Gallery's ex-Trustees, the Whitbread Award-winning historian and biographer Claire Tomalin, who talked about her well-received recent biography of Thomas Hardy, *The Time-Torn Man*.

In March Jacob Simon, Chief Curator, hosted a special evening at the Gallery for potential supporters to learn more about the Collection. The occasion featured a series of lively talks with curators throughout the Gallery. Each area had a very different feel – with period music in the Tudor Gallery, readings in the Regency and artists Stuart Pearson-Wright and James Lloyd talking about their work in the Contemporary Galleries.

There are now eighty-eight Associates, a category launched at the end of 2005. We were delighted with the success of our series of Thursday evening events entitled *New Faces*, which were designed to encourage some longstanding Members, as well as donors to special appeals, to consider joining as Associates. Associates enjoy invitations to private view parties at the Gallery with a guest, as well as an Associates' breakfast, a complimentary catalogue and other special occasions throughout the year, together with all of the benefits received by Members.

The important contribution of Members is noted on page 5. In 2006/07 we piloted a Members' Desk in the Gallery to increase the visibility of this level of support. Two evening private views proved very popular and attracted a younger audience to membership. In addition Members had the opportunity to tour both the Globe and Rose theatres.

The overall increase to individual giving income was 10% compared to 2005/06.

Grant-giving bodies

Charitable trusts and foundations continue to provide a source of essential support; these are credited alongside the relevant activities in sections 1 to 3 above. The re-formed Board of the American Friends of the National Portrait Gallery (with 501 (c) (3) tax status for US taxpayers) made a number of grants during the year and continued to be very supportive through the good guidance of the President, David Alexander.

Income for acquisitions

During 2006/07 the Gallery was notified of a final distribution of £79,000 from the legacy of Mary Hyde, Viscountess Eccles, which has been designated for The Portrait Fund, in accordance with the Reserves Policy at page 25. Donations during the year for acquisitions included £750,000 from the National Heritage Memorial Fund for the John Donne portrait and two grants from The National Art Collection Fund for the portraits of John Donne and R.B. Kitaj. The estimated value of donated objects was £71,000 (£422,000 in 2005/06).

Activities for generating funds*Corporate members and Venue hire*

New corporate members this year included Hazlitt, Gooden & Fox and American Express. After an impressive increase in a difficult climate for corporate fundraising of 47% in 2005/06, corporate member income in 2006/07 was more than maintained in real terms with an increase of 6%; however the key benefit for corporate members of reduced rates for Venue Hire has resulted in some reduction in Venue Hire income overall.

This year many Corporate Members and Regency Partners chose to entertain at the Gallery, including BBA Aviation, BDG Workfutures (part of the WPP Group), BP, Burberry, Citigroup, Herbert Smith LLP, JPMorgan, Lehman Brothers, Linklaters, Manning, Selvage & Lee, Towers Perrin and Urenco. Gap held a special event in September to launch the book *Individuals*. The Balcony Gallery screens were re-hung for one night to show forty Gap portraits.

One-off hires included dinners for Arts & Business, Englefield Capital LLP and Liberty International PLC and receptions for BT, Freshfields Bruckhaus Deringer, Future Films Limited, Luther Pendragon and PricewaterhouseCoopers. After an exceptionally successful year in 2005/06 and in part due to usage at reduced rates by corporate members, as noted above, Venue Hire income decreased by 11%.

Trading company

The Gallery has set up a subsidiary trading company, National Portrait Gallery Company Limited, starting operations on 1 April 2007; following consultation with HM Revenue and Customs, retail, venue hire and the catering franchise will be transferred to the company. Longer term, the Gallery will be seeking to identify, evaluate and develop new commercial opportunities to be run through the company.

Trading

After a slower than expected beginning to the year, the retail operation finished 2006/07 with record sales in all three shops, 33% ahead of the annual target, which was achieved three months before the year-end, and 36% up on 2005/06.

The recovery was already under way by the summer, but the major driver, of both visitors and sales, was *David Hockney Portraits*, for which the Gallery developed three distinct ranges of merchandise. More than 71,000 reproductions of the works were sold and an enormous number of catalogues (over 11,000) at the exhibition alone.

Building on this success, the Gallery worked with designers Thomas Manss to produce a sharply focused range of merchandise to accompany the *Face of Fashion* exhibition. The appeal of this range was reflected in *Vogue's* request to feature it in the April 2007 edition.

The average retail taking per Gallery visitor increased by 25% during the year and the average transaction value increased by 9%. Although online sales were strong during the major exhibitions, values for the year rose by just 6%, which was disappointing against the backdrop of rapid growth in this market as a whole. However, the online service has prompted much positive feedback from customers and investment in the Gallery's website is expected to further improve product ranges, navigability and ease of ordering.

A range of greetings cards based on images from the photographic archives has proved very popular and will be one of a number of areas for product development in 2007/08. Income from the Gallery's publishing programme contributed significantly to overheads and sales exceeded target by 27% thanks to strong sales at the Gallery, in the book trade and through a number of international co-editions.

The Picture Library met its sales targets, while agency sales targets were exceeded by 25%, despite difficulties in the book trade, the Gallery's key market. The department continues to be fully engaged with the digital world. Internet licensing sales were up 73% on last year and nearly 80% of images are now being supplied digitally. The availability of low-cost digital prints and the disappearance of key suppliers in the local area affected overall sales of premium hand-finished prints, although black and white print sales were more than 10% above target.

Commercial projects enable the Gallery to support a wide range of academic and educational work and significant examples in 2006/07 included an HBO television mini-series, *John Adams*, and an anthology of British literature for Broadview Press.

The Picture Library team provided support, expertise and strategic guidance for colleagues within and beyond the Gallery, most notably in the context of the Museum Copyright Group's conference, held in January 2007. Among projects being actively supported is an initiative to develop service improvements to the academic and educational sector, whilst maximising the effectiveness of revenue-generating activities.

Further developments to the Picture Library's new integrated management software have resulted in delays, but will pave the way for a significant expansion of the department's public service and revenue-generating activities when it is launched in 2007/08.

Catering franchise, Investment and Other income

Catering income increased by 16%, boosted by the increased visitor numbers; weekend covers have increased and average spend remained steady. The Portrait Restaurant was voted best London location in the Observer's March 2007 Food Monthly. Investment and other income increased by 23%, mainly due to the bank interest generated from The Portrait Fund.

Effectiveness and efficiency

The Gallery has been working towards implementation of recommendations from the 2005 National Audit Office report, *Procurement in the Culture, Media and Sport Sector*, including representing smaller museums on the DCMS Procurement Council and introducing the Government Procurement Card. The Gallery has achieved a number of efficiencies in automating procedures, upgrading IT systems and sustainable procurement, which contributed to the £305,000 total cash and non-cash targets of the Efficiency Delivery Plan (in the 2005 to 2008 Funding Agreement with DCMS) being exceeded. There are further targets for cost savings and efficiencies in 2007/08, including evaluation of the potential to share services with other museums and galleries.

Staff

The continued development of a sound infrastructure of skilled staff and up-to-date systems and resources is a critical element towards the achievement of the Gallery's business plan objectives.

Ambitions continue to outstrip staff resources required but through manpower planning we are able to prioritise. The Learning and Access team was strengthened to support the interpretation policy and the continued development of access work. We were also able to strengthen the Finance and Archive teams and to make, at least initially, short-term improvements to the Communications and Development department in the areas of corporate development and press. Following the 2005 staff survey, 2006/07 saw work on flexible working policies and action to tackle the 'long hours' working culture.

Including long-term sickness, absence rates increased from an average of 8 days in 2005/06 to 10 days in 2006/07, due to one particular case of long-term sickness which resulted in an ill-health retirement; however, excluding long-term sickness, the rate in 2006/07 of 6 days was the same as 2005/06. The public sector average for 2006 including all absences was 10 days, according to the Chartered Institute of Personnel and Development 2006 annual survey report of Absence Management.

In keeping with our revised training strategy, we have sought to balance our programme to best fit with Gallery-wide, departmental and individual training needs.

An important area of action has been the roll-out of the management development programme. This started with managers completing a Management Skills Framework Questionnaire to help identify priority areas and has continued with a programme accredited by the Institute of Leadership and Management (ILM). We now have twelve managers undertaking the ILM qualification, with a further course planned for next year. Besides this programme, the involvement with other leadership programmes continues and the Gallery has managers participating in the Clore Leadership Fellowship, Unilever's 'Catalyst Unleashed' programme and City University's Cultural Leadership Programme.

A significant number of Gallery staff have attended IT 'bite-size' training sessions. These sessions were designed to improve IT skill levels in the main packages in use at the Gallery, and followed the IT audit undertaken last year. Other training initiatives during the year included Data Protection to provide better awareness of information security, as well as Visual Awareness training with the RNIB, which coincided with the *Fame!* exhibition, to support blind and partially sighted visitors to the Gallery.

The Gallery is currently finalising a combined Equality Scheme to meet its duties under the Race Relations (Amendment) Act, new duties arising from the Disability Discrimination Act and legislation on gender equality forthcoming in April 2007; the scheme also supports an ongoing commitment to all diversity matters. Key actions arising from the scheme will include the introduction of goals for increasing numbers of disabled, black and minority ethnic employees.

The partnership with three local secondary schools has now been up and running for two years and has seen fifteen pupils participating in a two-week work-experience programme at the Gallery. 40% of these pupils were from a black or minority ethnic background.

The Gallery continues to support other museum-focused career development schemes for disadvantaged, black and minority ethnic students (Young Graduates) and an associate curatorial fellowship (Arts Council Inspire Scheme).

Development of a flexible working policy during 2007 will have benefits across the Gallery and on its ability to attract a diverse workforce by ensuring that the institution has working practices that do not exclude particular groups from employment.

During 2006/07, the Gallery received valuable support from volunteers as follows:

	Full-time equivalent
Generating voluntary income:	1.4
Activities for generating funds:	0.8
Extending and broadening audiences:	1.6
Developing the Collection:	1.7
Increasing understanding and engagement with the Collection:	6.0
Support:	1.2

Premises

The year has seen the continuation of a programme of small but significant improvements to the appearance of the Gallery and the flexibility of some of its display spaces.

Lighting and refurbishment of the building's fine façades was completed with generous financial support from British Land. The lighting design emphasises the strong Florentine characteristics of Ewan Christian's architecture and gives a new prominence to the portrait busts of artists, historians and statesmen that are a unique feature of the building. The project allowed us the opportunity to clean the exterior for the first time in twenty years and to refurbish the windows that are such a strong element of the façade.

After two decades of development and refurbishment, the Gallery display spaces are in good order. Nevertheless the continued growth in visitor numbers, and above all the staging of large temporary exhibitions within the confines of the building, continue to be a challenge. During 2006/07 a new lighting system was introduced in part of the ground-floor galleries that enabled us more easily to extend the space suitable for temporary exhibitions; at the same time the main special exhibitions gallery was opened up and more space was created by removing a redundant screen system.

The main focus for the buildings team over the past year and for the next two to three years will be the renewal of plant and services. The programme needed to start slightly earlier than anticipated in order to reduce the risk of boiler failure, and 2006/07 saw the installation of new steam boilers. The renovations will now continue with a planned programme of other primary and secondary plant replacement and the renewal of other systems such as telephones and CCTV. Integral to this programme will be the improvements in energy efficiency that are a key part of the Gallery's sustainability action plan.

IT

Investment in the IT infrastructure and the development of IT solutions to achieve the efficiencies identified in the 2005 IT audit have continued through 2006/07. In that year, for end-users a wireless network was installed for training, while software and hardware upgrades were provided for the exhibitions ticket sales team and for the digital imaging and publishing teams. In terms of back-end operations, IT asset management software was installed to improve systems support, server virtualisation software to provide flexibility in the server capacity, and wake-up software to allow overnight Word and security updates.

Services to research and readers

The Heinz Archive and Library received 1,463 researchers in its public study room and responded to 1,692 telephone, letter and email enquiries concerning British portraiture. Staff organised visits and presentations for students from the Courtauld Institute doing an MA in costume history and for a group of students from the Introduction to Visual Sources for Historians course at the Institute of Historical Research. An introductory practical exercise based on the resources of the department was developed for staff training purposes and group visits. For developments in the cataloguing process, see page 16.

Records and Information

The Gallery received nineteen requests under the Freedom of Information Act, most of which, as previously, concerned the Collection. The Information Commissioner issued a Decision Notice early in 2007, finding against the Gallery for withholding a purchase price in January 2005, but no action was required as the price was subsequently released. In November the Trustees agreed to include purchase prices in the Board minutes on the Gallery's website. A report on the Archive and Library, presented to Trustees in May 2006, outlined an information strategy for the department. In accordance with this, a business case was prepared for an information management system to improve service delivery across library and archive collections; policies on records management and data protection were revised; and a plan was agreed for developing electronic records management. A feasibility study was commissioned for a web-based resource for British portraiture (a 'Portrait Portal'), which the Gallery intends to develop in association with a number of partner organisations. In the meantime, several stand-alone library databases were merged to simplify conversion, and cataloguing of historic records and indexing of portraits were suspended pending implementation of the new system in 2007.

Governance

The Gallery seeks to uphold the highest standards of governance through the accountability and transparency of its management processes, decision-making and communications. This was endorsed in 2006/07 by an internal audit review of corporate governance which had no high-priority recommendations. Actions taken during the year to improve governance included an update to the Trustees' Handbook, together with the renewal of the financial regulations and policies for risk management, data protection, records management, IT, security and communications.

FINANCIAL REVIEW

Presentation

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

The Accounts are presented in accordance with the reporting requirements of the Statement of Recommended Practice (SORP, revised 2005), *Accounting and Reporting by Charities*.

As required by the SORP, the Statement of Financial Activities shows total incoming resources for the year, including income received for capital expenditure and future projects occurring in 2007/08 and beyond. The Statement of Financial Activities apportions the cost of support services (directorate, personnel, finance, IT, utilities, maintenance, communications and office expenses) and depreciation across the various headings of cost of generating funds and charitable expenditure.

Financial Performance

In spite of the continuing difficulties in the economic and security climate, 2006/07 has been another sound year in terms of meeting internal financial targets as well as the performance targets agreed with the Department for Culture, Media and Sport. The success of *David Hockney Portraits* and other charging exhibitions together with the Gallery's excellent trading and fundraising results have allowed the Gallery to designate further funds in the Investment and Contingency Fund to finance one-off expenditure, as described below in the Reserves Policy.

Statement of Financial Activities

The 4% increase in revenue Grant-in-Aid (excluding project funding of £54,000 for the purposes of a project on income generation in the sector) and £437,000 capital funding in 2006/07, combined with the increase in visitor numbers, meant that Grant-in-Aid per visitor to St Martin's Place increased very slightly from £4.18 per visitor in 2005/06 to £4.19 in 2006/07. Including visits to regional partners but excluding website visitors, this figure becomes £3.70 per visitor (£3.74 in 2005/06). The Gallery continues to be outstandingly effective in terms of Grant-in-Aid per user (which includes website and regional partner visitors); the figure for 2006/07 was £0.59, compared to £0.71 in 2005/06.

As Grant-in-Aid represents only 52% of total income (net of trading and fundraising direct costs and excluding income for building projects and donated acquisitions), self-generated income remains crucial to sustaining the breadth and quality of the Gallery's activities. Gross self-generated income represented 56% of total income, compared to 54% in 2005/06. Net self-generated income increased by 22% compared to 2005/06 comprising healthy increases in sponsorship, corporate memberships, venue hire, catering and the majority of fundraising income. Gross Trading income (Retail, Publications and Picture Library) increased by 11% and net Trading income (excluding allocated support costs) increased from £0.37 million to £0.46 million (Note 18). More detail is provided in 4) Increasing and Developing Resources from page 18.

Overall resources expended rose by 9% compared to 2005/06, reflecting one-off investment from the Investment and Contingency Fund (see Reserves Policy below), expenditure funded by one-off grants and cost of sales for trading income. 4% of this increase relates to staff costs, which increased by 9%, reflecting the strengthening of resources noted under 4) Increasing and Developing Resources (Staff) on page 20, staff on fixed-term contracts working on funded projects and the use of agency staff on short-term contracts to cover vacant administrative posts where recruitment has been problematic, such as IT and Finance; as a proportion of total resources expended, staff costs decreased from 50% to 49%. Other items of non-staff expenditure which increased from 2005/06 were publicity (including £212,000 in-kind sponsorship) to maximise the opportunity to raise the Gallery's profile during its 150th Anniversary and energy costs. £159,803 of Strategic Commissioning funds towards the National Programme (see page 8) were received and expended in 2006/07 (£158,000 in 2005/06).

Balance Sheet

Unrestricted Funds

The brought forward Unrestricted Funds balance of £10.7 million was reduced by £0.6 million during the year. The closing balance was £10.1 million of which £7.1 million represents the capital assets funded from self-generated income (which are therefore not available to spend) and £2.6 million has been designated for the Investment and Contingency Fund (see Reserves Policy below) and for projects deferred to 2007/08. In order to reflect the fact that acquisitions for the collection are inalienable and therefore restricted, the £0.45 million value of internally funded acquisitions has also been designated and transferred to Restricted Funds. The General Fund has been adjusted to £0.4 million in accordance with the Reserves Policy below.

Restricted Funds

The brought forward Restricted Funds balance of £47.7 million was increased by £4.6 million. The closing balance was £52.3 million of which £43.8 million represents the vested assets and the capital assets financed by the Development Appeal Fund and the Heritage Lottery Fund and £6.6 million represents donations for capitalised acquisitions (including the value of donated objects); neither of these amounts is therefore available to spend. The balance of £1.9 million represents The Portrait Fund, funds donated and available for the restricted purposes of grant-funded projects to be completed and the acquisition of specified categories of portraits.

Fixed Assets

The principal fixed assets represent the depreciated value of the St Martin's Place and the Orange Street buildings which were re-valued at 31 March 2004. In accordance with a Treasury directive, the Gallery has adopted a policy of using National Statistical Office indices to adjust the depreciated values of all assets in the years when they are not re-valued. The net book value of St Martin's Place and Orange Street, including fit-out, at 31 March 2007 was £40.9 million.

Performance against targets

An analysis of performance against the core targets agreed with the Department for Culture, Media and Sport under the Funding Agreement is set out on page 29.

Payment of Creditors

The Gallery follows the Treasury's guidance on payment of invoices. However in 2006/07, due to extended absence of staff, the Gallery paid approximately 48% of its invoices within 30 days of the invoice date, compared to 60% in 2005/06; the average number of days taken to pay invoices was 33. Towards the end of 2006/07, the percentage improved to almost 80% and performance standards will be monitored in 2007/08 to ensure these improvements are maintained.

Investment Policy

Investments are held in accordance with the Trustees Act 2000. Surplus cash is held on deposit with National Westminster Bank Plc, which provides daily access while earning longer-term Money Market rates, providing a rate of return together with the liquidity required for the payment of current liabilities and future obligations. The Gallery also has a total of £38,000 in Charinco (managed by Black Rock Investments) and COIF (managed by CCLA), which are both common investment funds (see Note 7).

Trustees will keep the Gallery's investment policy under review; the overall objective will continue to be to maximise total return in the long term, while maintaining a prudent spread of risk. During 2006/07 the Trustees of the Portrait Fund considered the investment strategy for the Fund and agreed that it would not be appropriate to appoint external investment managers to manage a segregated portfolio of investments until the balance on the Fund was at least £6 million. Until then Trustees agreed that common investment funds would provide an appropriate vehicle for investment to achieve the investment policy objective to maximise total return in the long term by generating income and capital growth; however, in anticipation of volatility in the stock markets and increases to Bank of England base rates, the current funds remain on deposit with National Westminster Bank Plc, together with the Gallery's other cash balances, earning a higher interest rate overall.

Reserves Policy

The Trustees perform an annual review of the Gallery's needs for reserves in line with the guidance issued by the Charity Commission. Between 50% and 65% of annual net income is received as recurrent Grant-in-Aid from the government. The balance is derived from self-generated income which is mostly volatile and vulnerable to economic downturn. The Gallery has no general endowment and only a modest endowment for the support of the acquisition of major portraits (see below).

General funds need to be sufficient to enable the Gallery to manage its working capital, specifically the cash tied up in stock. The balance of £0.4 million in the General Reserve equates in total to three-quarters of the average stock levels in the accounts.

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

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

£1.4 million of the £2.2 million balance as at 31 March 2007 has been allocated to specific projects for these purposes in 2007 to 2010. Of the £0.8 million balance remaining, at least £0.3 million is held as contingency against unforeseen expenditure and short-term losses of income while £0.25 million is held in order to smooth fluctuations on baseline expenditure which needs to be averaged across several years, such as the exhibitions programme. Any balance (up to £0.25 million per annum) allows the Director to take advantage of unexpected opportunities during the year. The fund is replenished with one-off unrestricted income (apart from legacies designated for The Portrait Fund as below) and with any annual surplus in excess of the balance maintained in the General Reserve.

The Deferred Projects Fund represents underspends generated in the previous financial year, which are to be employed in specific projects, usually in the current financial year; the full balance of £0.4 million is expected to be spent in 2007/08.

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

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

Related Parties

The Gallery's sponsor, the Department for Culture, Media and Sport, is regarded as a related party. During the year, the Gallery has had various material transactions with the Department and with other entities for which the Department is regarded as the parent Department. A summary of these and other related party transactions during the year is set out in Note 21.

Capital Charging

From 2003/04, following the Government's full introduction of "resource budgeting" the Gallery has been required to manage its net expenditure, including its capital charges on assets (costs of capital as described in Note 11, depreciation and other diminutions of value on fixed assets) and other non-cash costs such as provisions within an overall resource allocation from the Department for Culture, Media and Sport.

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

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

As capital charges are affected by the external professional revaluations and annual revaluation by indexation to fixed assets, there is a risk that the actual capital charges will exceed the original estimates (both the actual and projected indexation calculations use indices provided by the Treasury); any overspend on non-cash costs could reduce cash Grant-in-Aid in the following year. However, in recognition of this risk, the Department, in 2003/2004, secured a safeguard for the Museum and Gallery sector from the Treasury, against the impact of March 2004 five yearly professional revaluations of land and buildings; however this safeguard was only in place for 2003 to 2006 and is no longer in place.

The Department had also agreed to cover from the Department's own funds until 2005/06 any increase in capital charges arising from the use of indices in the years between full professional revaluations on inalienable land and buildings, such as the main building of the Gallery. This provision lapsed in 2005/06 and variations on other assets liable to capital charges are not covered.

Accordingly, investment decisions since 1 April 2003 have therefore had to take account of the impact of capital charges and the availability of provision within the resource allocation from the Department. From 2003/04, the Gallery has also needed to manage any fluctuations arising from variations in the value of assets on indexation, apart from those eligible for cover by the Department.

REMUNERATION REPORT

The Senior Staff Remuneration Committee advises the Trustees on the performance and remuneration of the Director. The Committee is chaired by the Chairman of the Trustees and is composed of the members of the Audit and Compliance Committee (see page 27). Once a year the Chairman leads a discussion on the Director's work, against the objectives agreed at the previous meeting of the Committee, in order to recommend to the Board the awarding of any performance related pay. The remuneration of other members of the Management Team is set out in their contracts and subject to the annual pay review framework for all staff. Trustees do not receive any remuneration.

Details of the Director's emoluments, pension entitlements and service contract can be found at Note 5 to the Accounts (and have been subject to audit).



Sandy Nairne, Accounting Officer
12 July 2007



Professor David Canadine, Chairman of Trustees
12 July 2007

The Board of Trustees and Professional Advisers

Between 1 April 2006 and 12 July 2007, the date on which the accounts were signed, the Trustees were:

Ms Zeinab Badawi

Mr Nicholas Blake, QC (* from 30 April 2007)

Professor Robert Boucher, CBE, FEng

Professor David Cannadine, FBA, FRSL (Chairman)

The Marchioness of Douro

Ms Amelia Fawcett, CBE (Deputy Chair) # (* to 31 December 2006)

Ms Flora Fraser

Professor Ludmilla Jordanova

Mr David Mach, RA (from 21 August 2006)

Sir Christopher Ondaatje, CBE, OC #

Mr David Ross (* from 1 January 2007)

Professor Sara Selwood *

Ms Alexandra Shulman, OBE

Sir John Weston, KCMG *

ex officio

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

Lord President of the Council – The Rt Hon Baroness Amos to 28th June 2007

Lord President of the Council – The Rt Hon Baroness Ashton of Upholland from 28th June 2007

* Audit and Compliance Committee members. The Chair of the Audit and Compliance Committee was Sir John Weston, KCMG, until 31 December 2006 and Mr David Ross from 1 January 2007. Ms Amelia Fawcett, CBE, was replaced by Mr Nicholas Blake, QC, on 30 April 2007. Mr Stephen Souchon is co-opted on to the Audit and Compliance Committee to provide specialist accountancy knowledge (for a period of two years from June 2007).

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

External Advisers

Bankers:	Main:	National Westminster Bank 2a Charing Cross Road London WC2H 0PD
	Trust Funds:	Royal Bank of Scotland 49 Charing Cross London SW1A 2DX
External Auditors:		Comptroller & Auditor General National Audit Office 157-197 Buckingham Palace Road London SW1W 9SP

Under statute, the Comptroller & Auditor General is the auditor of the Gallery's accounts for the year 2006/07. The audit fee in respect of this work was £21,500 (£19,600 in 2005/06).

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

Internal Auditors:

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



Sandy Nairne, Accounting Officer
12 July 2007



Professor David Canadine, Chairman of Trustees
12 July 2007

PERFORMANCE AGAINST 2006-07 FUNDING AGREEMENT TARGETS

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

Core target	Note	2000/01 Actual	2001/02 Actual	2002/03 Actual	2003/04 Actual	2004/05 Actual	2005/06 Actual	2006/07 Target	2006/07 Actual
Total number of visits to the Gallery excluding virtual visits (000s)	1	1,219	1,479	1,319	1,426	1,469	1,529	1,550	1,665
Number of unique users visiting the website (000s)		662	1,121	1,374	2,578	4,543	7,300	6,500	9,888
Number of visits to the Gallery by adult UK visitors (aged 16 or over) from NS-SEC groups 5-8 (000s)	2				114	142	75	77	107
Number of visits to the Gallery by children aged 15 or under (000s)		62	52	66	71	93	81	85	85
Number of participations by children aged 15 and under in on- and off-site organised educational sessions (000s)	3				33	43	40	40	42
Net income from trading including corporate hire (£000)	4						£ 1,684	£ 1,680	£ 2,461
Efficiency savings (£000)	5						£ 390	£ 305	£ 495

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

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

Note 3: Introduced in the 2003 to 2006 Funding Agreement

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

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

STATEMENT OF TRUSTEES' AND DIRECTOR'S RESPONSIBILITIES

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

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

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

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



Sandy Nairne, Accounting Officer
12 July 2007



Professor David Cannadine, Chairman of Trustees
12 July 2007

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

STATEMENT ON INTERNAL CONTROL

1. **Scope of responsibility**

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

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

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

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

3. **Capacity to handle risk**

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

4. **The risk and control framework**

Risk management has been embedded within the organisation through the business planning and project management procedures developed during 2003/04, which ensure that risks to achieving business plan activities are identified and are managed by having risk as a standing item on project team agendas.

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

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

A number of actions were taken during 2006/07 in response to a 2005/06 Internal Audit detailed review of risk management, including updating the risk management policy and improving the linkage between the Business Plan and the risk register. The one outstanding recommendation, to provide risk management training to staff, will be addressed in 2007/08, together with one recommendation from the 2006/07 Internal Audit annual review, that project and change management processes should be reviewed to ensure risks are formally identified and escalated to the Planning Team for review where significant.

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

Other actions taken during the year to mitigate risks with potentially high impact and/or probability included:

- External risks, physical disaster and breakdown of IT systems – implementing a number of IT security improvements, drawing up an emergency plan for avian flu and regular disaster recovery plan testing;
- Governance and management effectiveness - updating the Trustees Handbook, financial regulations (including the expenses policy) and policies for risk management, data protection, records management, IT, security and communications;
- Funding from the Department for Culture, Media and Sport (DCMS) – submission of a sizeable capital bid to the Comprehensive Spending Review 2007, the agreement of the scope for a business case to DCMS for increased recurrent funding and involvement in a submission by the National Museums Directors Conference to DCMS and HM Treasury to improve restrictions to the use of reserves under government resource accounting;
- Increasing self-generated income, in particular through recurrent sources such as individual and corporate memberships, by initiating new fundraising programmes such as the Portrait Fund and major donor development and by improving trading controls e.g. stock-holding and information for decision-making;
- Meeting the expectations of stakeholders and major projects – seeking further funding for established projects such as the DCMS/DfES-funded Strategic Commissioning and the HLF-funded *Reaching Out Drawing In* programmes;
- Identification of internal funding for 2007-10 Business Plan priorities such as cataloguing, family programme, improvements to the website and IT infrastructure, and for investment in initiatives to generate new income streams and efficiencies;
- Compliance – setting up a trading company to start trading from April 2007 and minimising the tax assessment raised following a PAYE audit by HM Revenue and Customs;
- Financial – the use of short-term appointments in Finance to improve financial controls, in particular on debt collection, and the introduction of more efficient ways of processing financial transactions; improvements to procurement procedures, including a pilot of the Government Procurement Card; and
- Failure or breakdown of other management systems – boiler replacement and upgrade of CCTV.

The ongoing areas of risk identified in the 2007-10 Business Plan, approved by Trustees in March 2007 (which will be mitigated by the Gallery as indicated), are:

- The threat of terrorism, particularly in the centre of London, remains a continuing concern (the Gallery has a well-developed Emergency Plan and Business Continuity Plan).
- The economic climate remains uncertain, with particular pressure on sponsorship and in the retail field (the Gallery is working hard to renew existing partnerships, to find new sponsors, to grow connections through the Venue Hire and Events work and to seek longer-term partnerships).
- Not meeting the high expectations from various stakeholders – such as school, college and community groups (the Gallery is working to plan budgets and resources so that clear options are offered and e-learning opportunities are increasingly offered as either an alternative or to complement to a visit).

After the record visitor numbers during the 150th Anniversary year, the Gallery will also need to ensure its profile is maintained through a diverse programme of exhibitions, displays and activities.

5. **Review of effectiveness**

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

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

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

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

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

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

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

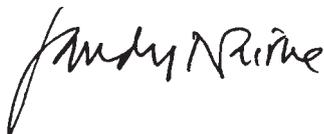
We have been advised on the implications of the result of our review of the effectiveness of the system of internal control by the Board of Trustees, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

6. **Significant internal control problems**

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

7. **Conclusion**

The system of internal control has been in place at the Gallery for the year ended 31 March 2007 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.



Sandy Nairne, Accounting Officer
12 July 2007



Professor David Canadine, Chairman of Trustees
12 July 2007

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

I certify that I have audited the financial statements of the National Portrait Gallery for the year ended 31 March 2007 under the Museums and Galleries Act 1992. These comprise the Statement of Financial Activities, the Balance Sheet, the Cashflow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

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

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

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Museums and Galleries Act 1992 and directions made thereunder by the Secretary of State for Culture, Media, and Sport, with the consent of the Treasury. I report to you whether, in my opinion, certain information given in the Trustees' Annual Report, which comprises: Structure, Governance and Management; Objectives; Activities, Performance and Planned Future Developments; Financial Review; and Board of Trustees and Professional Advisors, is consistent with the financial statements. 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.

In addition, I report to you if the National Portrait Gallery has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

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

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

Basis of audit opinion

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

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

Opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the Museums and Galleries Act 1992 and directions made thereunder by the Secretary of State for Culture, Media, and Sport with the consent of the Treasury, of the state of the National Portrait Gallery's affairs as at 31 March 2007 and of its incoming resources and application of resources for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Museums and Galleries Act 1992 and directions made thereunder by the Secretary of State for Culture, Media, and Sport with the consent of the Treasury; and
- information given within the Trustees' Annual Report, which comprises: Structure, Governance and Management; Objectives; Activities, Performance and Planned Future Developments; Financial Review; and Board of Trustees and Professional Advisors, is consistent with the financial statements.

Audit Opinion on Regularity

In my opinion, 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
00 July 2007

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

STATEMENT OF FINANCIAL ACTIVITIES FOR THE YEAR ENDED 31 MARCH 2007

	Notes	Unrestricted Funds £000	Restricted Funds £000	Total 2007 £000	Total 2006 £000
INCOMING RESOURCES					
Grant in Aid	2	6,540	491	7,031	6,426
Incoming resources from generated funds					
Voluntary Income					
Fundraising dinners		55	–	55	499
Individual giving		257	–	257	234
Grants and donations		63	678	741	347
Donated acquisitions	1(e)	–	71	71	422
Donations for acquisitions		–	677	677	233
Lottery income		–	109	109	93
Income from NHMF		–	750	750	50
Legacies		82	–	82	583
Other fundraising income		46	–	46	30
Activities for generating funds					
Corporate members		149	–	149	141
Gallery hire income		309	–	309	346
Trading income	18	2,506	–	2,506	2,261
Catering franchise		263	–	263	227
Investment income	3	221	–	221	169
Incoming resources from charitable activities					
Exhibitions admissions and touring income		1,504	–	1,504	842
Exhibition and programme sponsorship income		1,080	–	1,080	820
Learning and access income		38	–	38	32
Other income		135	3	138	123
Total incoming resources		13,248	2,779	16,027	13,878
RESOURCES EXPENDED					
Costs of generating funds					
Costs of generating voluntary income	5	469	25	494	499
Fundraising trading: cost of goods sold and other costs	5	2,780	98	2,878	2,671
Total costs of generating funds		3,249	123	3,372	3,170
Net incoming resources available for charitable application		9,999	2,656	12,655	10,708
Resources expended on charitable activities					
Extending and broadening audiences	5	2,444	473	2,917	2,358
Developing the Collection	5	3,503	175	3,678	3,511
Increasing understanding and engagement with the Collection	5	3,242	899	4,141	3,838
Governance costs	5	90	12	102	110
Total Resources expended on charitable activities		9,279	1,559	10,838	9,817
Total Resources expended		12,528	1,682	14,210	12,987
Notional costs					
Cost of capital	1(l)	748	–	748	724
Net incoming/(outgoing) resources after notional costs		(28)	1,097	1,069	167
Reversal of notional costs		748	–	748	724
Net incoming/(outgoing) resources for the year before transfers		720	1,097	1,817	891
Transfers between funds	11	(1,610)	1,610	–	–
Net incoming resources for the year after transfers		(890)	2,707	1,817	891
Gains on investments	7	–	–	–	4
Indexation adjustments/revaluation	11	326	1,869	2,195	2,533
Net movement in funds		(564)	4,576	4,012	3,428
Fund balances brought forward at 1 April		10,699	47,711	58,410	54,982
Fund balances carried forward at 31 March		10,135	52,287	62,422	58,410

All operations of the Gallery continued throughout both periods and no operations were acquired or discontinued in either period. There are no recognised gains or losses other than those shown above.

The notes on pages 39 to 58 form part of these accounts.

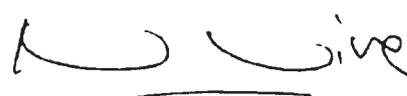
BALANCE SHEET AS AT 31 MARCH 2007

	Notes	£000	2007 £000	2006 £000
Fixed Assets				
Heritage Assets	6		6,618	4,627
Tangible assets	6		50,935	49,430
Investments	7		38	38
			57,591	54,095
Current Assets				
Stock		396		736
Debtors and prepayments	9	806		1,019
Cash at bank and in hand	8	5,198		4,276
		6,400		6,031
Current Liabilities				
Creditors (amounts falling due within one year)	10	1,569		1,637
Net Current Assets			4,831	4,394
Long Term Liabilities				
Creditors (amounts falling due after one year)	10		-	79
Net Assets			62,422	58,410
Represented by:				
Restricted Funds	11		52,287	47,711
Unrestricted Funds				
Designated funds	11		9,735	10,099
General funds	11		400	600
Total Funds			62,422	58,410

The notes on pages 39 to 58 form part of these accounts.



Sandy Nairne
Accounting Officer
12 July 2007



Professor David Cannadine
Chairman of Trustees
12 July 2007

CASH FLOW STATEMENT AS AT 31 MARCH 2007

	Note	2007	2006
		£000	£000
Net cash inflow from operating activities	17(a)	3,344	1,771
Capital expenditure and financial investment	17(b)	(2,643)	(907)
Management of liquid resources	17(b)	-	-
Return on investments and servicing of finance	17(b)	221	169
Increase in cash in the year		922	1,033

The notes on pages 39 to 58 form part of these accounts.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2007

1. ACCOUNTING POLICIES

a) *Basis of accounting*

The accounts have been prepared under the historic cost convention modified to include the revaluation of land and buildings, and the revaluation of listed investments to market value at the balance sheet date. The accounts comply with the Statement of Recommended Practice 2005, Accounting and Reporting by Charities, applicable accounting standards and the Accounts Direction issued by the Department for Media, Culture and Sport. The accounts include the Grant-in-Aid account and two trust funds administered by the Gallery (the Dame Helen Gardner bequest and the Portrait Fund) and exclude the American Friends of the National Portrait Gallery (London) Foundation Inc, a US grant-giving organisation with 501 (c) (3) tax status, over which the Gallery has no direct control. The Gallery is recognised as an exempt charity under the provisions of the Charities Act 1993.

b) *Incoming resources*

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

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

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

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

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

c) *Expenditure*

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

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

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

d) *Fund accounting*

Unrestricted funds:

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

Restricted funds:

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

e) *Heritage assets*

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

1. ACCOUNTING POLICIES (CONTINUED)*f) Tangible fixed assets*

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

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

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

Indicative asset lives are as follows:

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

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

g) Investments

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

h) Stock

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

i) Leases

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

j) Foreign currencies

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

k) Pension costs

Past and present employees are covered by the provisions of the Principal Civil Service Pension Schemes (PCSPS) which are described at Note 5. The defined benefit elements of the schemes are unfunded and are non-contributory except in respect of dependents' benefits. The Gallery recognises the expected costs of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution elements of the schemes, the Gallery recognises the contributions payable for the year.

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

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

m) Governance costs

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

2. GRANT IN AID

	2007	2006
	£000	£000
Running costs	6,540	6,285
Capital costs	437	100
	6,977	6,385
Project costs	54	41
	7,031	6,426
Comprising: Request for resource 1	7,031	6,426

£6,977,000 of Grant-in-Aid has been received during the year (£6,385,000 in 2005/06). This money is available for running costs, capital improvements and collection purchases; of this, £334,000 was allocated by the Gallery towards Primary Collection acquisitions (Collections Purchase Fund, Note 12). In addition, £54,000 relating to a separate Grant-in-Aid resource for a staff secondment salary has been received; this and the capital grants of £437,000 have been disclosed as restricted income in the Statement of Financial Activities.

3. INVESTMENT INCOME

	2007	2006
	£000	£000
Interest	219	167
Investment dividends	2	2
	221	169

4. NET INCOMING/(OUTGOING) RESOURCES BEFORE TRANSFERS

is stated after charging:	2007	2006
	£000	£000
a) External auditors' remuneration	22	25
b) Internal auditors' remuneration	16	20
c) Operating lease rental on land and buildings	60	45
d) Operating lease rental on fixtures & equipment	24	20
e) Cost of capital*	748	724
f) Depreciation	1,377	1,294

* This is also reversed

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

The incoming resources figure (Exhibition and programme sponsorship income) includes £212,731 of barter transactions (£25,000 in 2005/06). Three transactions totalling £211,731 relate to the 150th Anniversary media partnership with The Times and the Sunday Times and one transaction for £1,000 relates to provision of a display stand at Summer Fine Arts and Antiques Fair June 2006 by Clarion Events Ltd. These are included under expenditure relating to Extending and Broadening Audiences.

5. TOTAL RESOURCES EXPENDED

	Direct costs £000	Allocated support costs £000	2007 Total £000	2006 Total £000
Costs of generating funds				
Costs of generating voluntary income	358	136	494	499
Fundraising trading: cost of goods sold and other costs	<u>2,240</u>	<u>638</u>	<u>2,878</u>	<u>2,671</u>
Total costs of generating funds	2,598	774	3,372	3,170
Extending and broadening audiences				
Publicity and information	1,233	60	1,293	919
National programme	255	58	313	339
Learning and access	<u>736</u>	<u>575</u>	<u>1,311</u>	<u>1,100</u>
	2,224	693	2,917	2,358
Developing the Collection				
Collection management	2,635	1,043	3,678	3,511
Increasing understanding and engagement with the Collection				
Research and documentation	899	571	1,470	1,315
Exhibitions and display	<u>1,272</u>	<u>1,399</u>	<u>2,671</u>	<u>2,523</u>
	2,171	1,970	4,141	3,838
Governance costs	<u>70</u>	<u>32</u>	<u>102</u>	<u>110</u>
Resources expended on charitable activities	<u>7,100</u>	<u>3,738</u>	<u>10,838</u>	<u>9,817</u>
Total	<u><u>9,698</u></u>	<u><u>4,512</u></u>	<u><u>14,210</u></u>	<u><u>12,987</u></u>

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

	Directorate & Office Services	Personnel	Finance & Planning	IT & Communi- cations	Facilities Manage- ment	Depreciation	Support Salary Costs	Total	2006
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Costs of generating voluntary income	11	10	2	19	12	14	68	136	104
Fundraising trading	31	32	66	59	117	122	211	638	555
Costs of generating funds	42	42	68	78	129	136	279	774	659
Publicity and information	5	3	10	6	9	7	20	60	49
National programme	5	4	7	8	4	3	27	58	39
Learning and access	16	16	32	29	180	200	102	575	483
Extending and broadening audiences	26	23	49	43	193	210	149	693	571
Collection management	6	86	12	10	174	198	557	1,043	947
Developing the Collection	6	86	12	10	174	198	557	1,043	947
Research and documentation	24	25	3	46	144	165	164	571	509
Exhibitions and display	15	15	24	27	571	653	94	1,399	1,301
Increasing understanding and engagement with the Collection	39	40	27	73	715	818	258	1,970	1,810
Governance costs	2	-	1	-	13	15	1	32	30
Total	115	191	157	204	1,224	1,377	1,244	4,512	4,017

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

Support costs have been allocated across activities as follows:

Directorate: equally across departments

Personnel, salary costs: per capita

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

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

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

GOVERNANCE COSTS

	2007	2006
	£000	£000
Breakdown of direct costs		
Trustees' meetings and expenses	2	2
Internal Audit	16	20
External Audit	22	25
Finance and Planning costs	30	33
	70	80

a) Staff costs

	2007	2006
	£000	£000
Staff costs during the year amounted to:		
Wages and salaries	5,751	5,306
National Insurance	405	376
Pension	888	775
	7,044	6,457
Of which salaries capitalised for digitising the Collection:	78	49

Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 1 October 2002, civil servants may be in one of three statutory based 'final salary' defined benefit schemes (classic, premium, and classic plus). The schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, and classic plus are increased annually in line with changes in the Retail Prices Index. New entrants after 1 October 2002 may choose between membership of premium or joining a good quality 'money purchase' stakeholder arrangement with a significant employer contribution (partnership pension account).

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

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

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

5. TOTAL RESOURCES EXPENDED (CONTINUED)

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but the National Portrait Gallery is unable to identify its share of the underlying assets and liabilities. 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 2006/07, employers' contributions of £881,000 were payable to the PCSPS (2005/06 £765,000) at one of four rates in the range 17.1 to 25.5 per cent of pensionable pay, based on salary bands (2005/06 rates in the range 16.2 to 24.6 per cent). Employer contributions are to be reviewed every four years following a full scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

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

Employers' contributions of £7,521 (£10,240 in 2005/06) were paid to one or more of a panel of four appointed stakeholder pension providers. Employer contributions are age-related and range from 3 to 12.5 per cent of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay. In addition, employer contributions of £811 (£890 in 2005/06), 0.8 per cent of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

Contributions due to the partnership pension providers at the balance sheet date were £528. There were no contributions prepaid at that date.

Numbers of Employees

The number of employees, comprising the Director and 2 other members of the Senior Management Team (1 in 2005/06) whose emoluments as defined for taxation purposes amounted to over £60,000 in the year are as follows:

	2007	2006
£60,001 – £70,000	2	1
£100,001 – £110,000	1	1

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

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

	Permanent staff	Temporary staff	2007 Number	2006 Number
Costs of generating voluntary income	10	–	10	8
Fundraising trading	30	1	31	32
Extending and broadening audiences				
Publicity and information	3	–	3	3
National programme	4	–	4	3
Learning and access	11	4	15	12
Developing the Collection				
Collection management	69	13	82	85
Increasing understanding and engagement with the Collection				
Research and documentation	24	–	24	23
Exhibitions and display	13	1	14	14
Governance	–	–	–	–
Support	27	2	29	26
Total	<u>191</u>	<u>21</u>	<u>212</u>	<u>206</u>
Of whom staff digitising the Collection capitalised:	2	–	2	2

As at 31 March 2007, 43 staff had season ticket and training loans outstanding worth a total of £38,219, included in Other Debtors.

5. TOTAL RESOURCES EXPENDED (CONTINUED)*Director*

The remuneration of the Director, Sandy Nairne, was £94,481 plus a non-consolidated bonus of £11,491 and employer's pension contributions £24,092. (In 2005/06 the remuneration of the Director, Sandy Nairne, was £92,045 plus a non-consolidated bonus of £10,380 and employer's pension contributions £24,879) The Director's contract of employment is fixed for a period of seven years, effective from November 2002 with a 6 month notice period. The Director is eligible to receive ill health retirement benefits or early retirement benefits order Section 3 of the PCSPS but not to compensation order Section 10 of the PCSPS at the expiry of the appointment.

The Director's salary and pension entitlements as at 31 March 2007 were as follows:

	Salary including Bonus £000	Real increase in pension £000	Total accrued pension at age 60 at 31 March 07 £000	CETV at 31 March 06 £000	CETV at 31 March 07 £000	Employee contributions transfer in £000	Real increase in CETV after adjustments for and changes in market investment factors £000
31 March 2007	105 - 110	0 - 2.5	20 - 25	379	413	3	19
31 March 2006	100 - 105						

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

Director's Pension: The above table shows the member's cash equivalent transfer value (CETV) accrued at the beginning and the end of the reporting period. A CETV is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme.

A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The 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 Civil Service pension arrangements and for which the CS Vote has received a transfer payment commensurate to the additional liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing 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 Actuaries.

Please note that the factors used to calculate the CETV were revised on 1 April 2006 on the advice of the Scheme Actuary. The CETV figure for 31 March 2006 has been restated using the new factors so that it is calculated on the same basis as the CETV figure for 31 March 2007.

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

b) Trustees

The Trustees neither received nor waived any emoluments during the year (also in 2005/06). Expenses reimbursed to or paid on behalf of one Trustee amounted to £180 (£118 in 2005/06) and related to Travel and Subsistence.

Trustees are appointed to serve for a period of 4 years with the possibility of renewal for a further 4 years at the end of that period.

6. TANGIBLE FIXED ASSETS

	Land & buildings £000	Plant & machinery £000	Furniture & equipment £000	Total tangible assets £000	Heritage assets £000	Total £000
Valuation/cost at 1 April 2006	41,121	10,067	2,036	53,224	4,627	57,851
Additions	85	418	183	686	1,991	2,677
Disposals	–	–	(8)	(8)	–	(8)
Indexation adjustment	1,796	472	(13)	2,255	–	2,255
Valuation/cost at 31 March 2007	43,002	10,957	2,198	56,157	6,618	62,775
Depreciation at 1 April 2006	1,341	796	1,657	3,794	–	3,794
Disposals	–	–	(8)	(8)	–	(8)
Depreciation	720	438	219	1,377	–	1,377
Indexation adjustment	32	36	(9)	59	–	59
Depreciation at 31 March 2007	2,093	1,270	1,859	5,222	–	5,222
Net book value at 31 March 2007	40,909	9,687	339	50,935	6,618	57,553
Net book value at 31 March 2006	39,780	9,271	379	49,430	4,627	54,057

The net book value at 31 March 2007 represents fixed assets for:

	Land & buildings £000	Plant & Machinery £000	Furniture & equipment £000	Heritage assets £000	Total £000
Charitable activities	36,902	8,738	306	6,618	52,564
Other activities	4,007	949	33	–	4,989
Total	40,909	9,687	339	6,618	57,553

All the Gallery's land and buildings were revalued in accordance with the RICS *Appraisal and Valuation Manual* by the firm of chartered surveyors, ATS Weatheralls, at 31 March 2004, at which time their values were increased overall to £44.2 million. In accordance with HM Treasury guidance, all the assets, except for Assets under Construction and Heritage Assets, have been revalued during 2006/07 using indices published by the Valuation Office and the Office of National Statistics.

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

structural – 50 years, fit-out – 25-30 years and plant and machinery – 20-25 years. Structural and fit-out costs are disclosed under the land and buildings category.

St Martin's Place: The main Gallery at St. Martin's Place was transferred from ('vested by') the Secretary of State for the Environment and the Crown to the Trustees of the Gallery on 12 January 1994, although title was not registered to the Trustees until 7 June 1994. The main Gallery was brought into the books in 1994 at a net book value of £43.7million and was revalued at 31 March 2004 on a depreciated replacement cost of £37.1million.

Orange Street and Charing Cross Road: The land and buildings at 39-45 Orange Street and 1 Charing Cross Road were purchased by the Trustees in 1988/89 for £1.5 million. This conveyance contains a covenant which states: "that the property shall not be used for any purpose other than for the purposes of The National Portrait Gallery as a non-profit making public art gallery and offices, library and storage and shop for the sale of books, souvenirs and pictures and restaurant and catering for visitors to the public and/or other similar. In each case strictly ancillary to the use of the property or the premises now known as The National Portrait Gallery as a public art gallery." They were reconstructed as part of the Gallery Development Plan to provide new accommodation for the archives and gallery administration. The buildings were occupied from October 1993. These properties were revalued at 31 March 2004 on an existing use basis at £7.1million, with an allowance to reflect the restrictions described.

6. TANGIBLE FIXED ASSETS (CONTINUED)

Merton store: Since the land and buildings used for storage at Merton are held on a 5 year operating lease, expiring May 2009, these assets have not been capitalised; the Gallery's plant and machinery at this property were valued at 31 March 2004 at £0.47million at existing use.

The net book value of land and buildings relates to:

	£000
Freehold	39,472
Long term lease (greater than 50 years)	1,437
Short term lease (less than 50 years)	–
	<u>40,909</u>

7. INVESTMENTS**Fixed asset investments**

	Black Rock (Charinco) £000	CCLA (COIF) £000	2007 £000	2006 £000
Market value at 1 April 2006	18	20	38	34
Net gain/(loss) on revaluation	(1)	1	0	4
Market value at 31 March 2007	<u>17</u>	<u>21</u>	38	38
Historical cost at 31 March 2007	<u>13</u>	<u>4</u>	17	17

All funds are invested in common investment funds and are analysed as follows:

	2007	2006
	£000	£000
Investment assets in the UK	38	38
	<u>38</u>	<u>38</u>

8. THE ROLE OF THE FINANCIAL INSTRUMENTS

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

Liquidity risk

Approximately 52% of the Gallery's income (excluding income for buildings and net of trading and fundraising costs) is provided as Grant-in-Aid from the Department for Culture, Media and Sport. The remaining proportion is therefore generated via self-generated income, which is volatile. The risk is managed by the reserves policy for general funds which ensures that an amount equivalent in total to three-quarters of the Gallery's average stock levels is held in general funds.

Interest rate risk

The Gallery draws down its annual Grant-in-Aid allocation according to its monthly cash flow requirements; 99% of the Gallery's financial assets represents cash held for these short term requirements and therefore earns interest at a floating rate. 0% of the Gallery's financial assets carry fixed rates of interest. Little more than 1% of the Gallery's financial assets are held in equities listed on a recognised stock exchange. However, as only a small proportion of income (2006/07 – £219,000) is generated from interest earned, the Gallery is not exposed to significant interest rate risk.

Interest rate profile

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

		Floating rate	Fixed rate	Non-interest bearing	Total	Weighted average interest rate	Weighted average period for which rate is fixed
		£000	£000	£000	£000	%	
At 31 March 2007							
Sterling	Floating	5,164	–	–	5,164	4.51	1 month
	Fixed	–	–	–	–		
US\$ Currency		3	–	–	3	1.23	"
Euro Currency		7	–	–	7	–	"
Other		–	–	62	62		
		5,174	–	62	5,236		
At 31 March 2006		£000	£000	£000	£000		
Sterling	Floating	4,171	–	–	4,171	4.24	1 month
	Fixed	–	–	–	–		
US\$ Currency		84	–	–	84	1.48	"
Euro Currency		7	–	–	7	–	"
Other		–	–	52	52		
		4,262	–	52	4,314		

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

Reconciled to the Balance Sheet

	2007	2006
	£000	£000
Fixed Asset Investments	38	38
Current Asset Investments	–	–
Cash at Bank	5,198	4,276
Total	5,236	4,314

Foreign currency risk

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

9. DEBTORS AND PREPAYMENTS

	2007	2006
	£000	£000
Trade debtors	384	703
Less provision for bad debts	(55)	(20)
	329	683
Other debtors	70	87
Prepayments	47	29
Accrued income	360	160
VAT recoverable	-	60
	806	1,019

There were no material balances with Whole of Government Accounts bodies at 31 March 2007.

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

	2007	2006
	£000	£000
Trade creditors	70	-
Other creditors	135	96
Taxation and social security	150	127
Accrued expenses	964	1,106
Deferred income	239	308
VAT payable	11	-
	1,569	1,637
of which creditors for capital expenditure:	64	101

b) Creditors falling due after one year

	2007	2006
	£000	£000
Deferred income	-	79
	-	79

There were no material balances with Whole of Government Accounts bodies at 31 March 2007.

c) Movement on deferred income

	Sponsorship	Membership	Venue Hire	Registration Fees	Total
	£000	£000	£000	£000	£000
Balance as at 1 April 2006	362	16	9	-	387
Amounts released from previous years	(362)	(16)	(9)	-	(387)
Incoming resources deferred in the current year	205	-	-	34	239
Balance as at 31 March 2007	205	-	-	34	239

11. STATEMENT OF FUNDS

	Note	Balance at 1 April 2006 £000	Income £000	Expenses £000	Net gains/ losses £000	Transfers £000	Balance at 31 March 2007 £000
Unrestricted funds							
Designated funds:							
Collections Purchase Fund	12	44	-	-	-	(44)	-
Collections Designated Fund	12	-	352	-	-	(352)	-
Capital Projects Reserve Fund*	12	6,907	159	(271)	326	-	7,121
Investment and Contingency Fund	12	1,674	-	-	-	546	2,220
The Portrait Fund	12	1,087	-	-	-	(1,087)	-
Deferred Projects Fund	12	387	-	(347)	-	354	394
Total designated funds		10,099	511	(618)	326	(583)	9,735
General Funds (Working Capital)		600	12,737	(11,910)	-	(1,027)	400
Total unrestricted funds		10,699	13,248	(12,528)	326	(1,610)	10,135
Restricted funds							
Development Projects Fund	13	20,913	437	(765)	765	90	21,440
Capital Reserve Fund (Non-donated Assets)	13	10,593	-	(106)	848	-	11,335
Capital Reserve Fund (Donated Assets)	13	11,017	-	(234)	256	-	11,039
Capitalised Acquisitions Fund	13	4,627	615	-	-	1,376	6,618
Total Capital Reserve Funds*		47,150	1,052	(1,105)	1,869	1,466	50,432
The Portrait Fund	13	-	50	-	-	1,164	1,214
Grants and Donations Fund	13	556	815	(468)	-	(270)	633
HLF/NHMF	13	-	859	(109)	-	(750)	-
Dame Helen Gardner Bequest	13	5	3	-	-	-	8
		561	1,727	(577)	-	144	1,855
Total restricted funds		47,711	2,779	(1,682)	1,869	1,610	52,287
Total Funds		58,410	16,027	(14,210)	2,195	-	62,422

* Capital Reserve Funds represent the net book value of tangible assets, including Collection acquisitions, purchased with unrestricted or restricted funds as well as the value of the main gallery vested with Trustees; these funds, totalling £60.1 million, are not available to spend.

12. DESIGNATED FUNDS

	£000	2007 £000	2006 £000
COLLECTIONS PURCHASE FUND			
Purchases during 2006/07 for the enhancement of the Primary Collection which were funded by the Grant-in-Aid allocation amounted to £378,000 (£270,000 in 2005/06). Movements on the reserve were as follows:			
Balance as at 1 April		44	9
Add: Grant-in-Aid allocation	334		305
Less: Acquisitions for Primary Collection	(378)		(270)
Transfers from General Funds		(44)	-
Balance as at 31 March		<u><u>-</u></u>	<u><u>44</u></u>

COLLECTIONS DESIGNATED FUND

Balance as at 1 April		-	-
Purchases for the Primary and Photographs Collections during the year		352	281
Transfer to Capitalised Acquisitions Fund		(352)	(281)
Balance as at 31 March		<u><u>-</u></u>	<u><u>-</u></u>

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

CAPITAL PROJECTS RESERVE FUND

Balance as at 1 April		6,907	6,627
Income during the year designated by the Trustees for Tangible Assets additions		159	271
		7,066	6,898
Less: Depreciation for year		(271)	(280)
Add: Indexation adjustments/revaluation		326	289
Balance as at 31 March		<u><u>7,121</u></u>	<u><u>6,907</u></u>

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

INVESTMENT AND CONTINGENCY FUND

Balance as at 1 April		1,674	1,460
Transfers from: General Funds surplus		546	214
Balance as at 31 March		<u><u>2,220</u></u>	<u><u>1,674</u></u>

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

THE PORTRAIT FUND

Balance as at 1 April		1,087	474
Income during the year		-	613
Transfer to Restricted Funds		(1,087)	-
Balance as at 31 March		<u><u>-</u></u>	<u><u>1,087</u></u>

This fund represented income designated for the development of the Collection (acquisitions and related costs such as conservation and displays, including unrestricted legacies and interest earned). A Declaration of Trust was signed in the year which restricted the use of these funds to the objectives of the Portrait Fund (Restricted Funds), to which the funds have been transferred (see Note 13).

12. DESIGNATED FUNDS (CONTINUED)

	£000	2007 £000	2006 £000
DEFERRED PROJECTS FUND			
Balance as at 1 April		387	280
Expenditure during the year		(347)	(247)
Transfers from General Funds		354	354
Balance as at 31 March		<u>394</u>	<u>387</u>

This fund represents underspends generated in 2006/07 which are to be employed in projects during 2007/08.

13. RESTRICTED FUNDS**THE PORTRAIT FUND**

Balance as at 1 April		-	-
Add: Donations received		50	-
Transfer from Unrestricted Funds	1,087		
Transfer to Capitalised Acquisitions Fund	(50)		
Transfer from General Funds (Unrestricted legacies and interest earned)	127		
		<u>1,164</u>	-
Balance as at 31 March		<u>1,214</u>	<u>-</u>

This fund represents restricted funds received for the development of the Collection (acquisitions and related costs such as conservation and displays) plus previously unrestricted funds which were restricted to the objectives of the Portrait Fund during the year upon signature of a Declaration of Trust.

DEVELOPMENT PROJECTS FUND

Balance as at 1 April		20,913	20,472
Add: Income for year (Tangible Assets additions)		437	100
Less: Depreciation for year		(765)	(687)
Add: Indexation adjustments/revaluation		765	1,028
Transfer from Grants and Donations Fund		90	-
Balance as at 31 March		<u>21,440</u>	<u>20,913</u>

This fund represents the net book value of Tangible Assets which have been funded from restricted income.

CAPITAL RESERVE FUND (NON-DONATED ASSETS)

Balance as at 1 April		10,593	10,325
Less: Depreciation for year		(106)	(98)
Add: Indexation adjustments/revaluation		848	366
Balance as at 31 March		<u>11,335</u>	<u>10,593</u>

This fund represents the net book value of vested Tangible Assets (Note 6) funded from self-generated income.

13. RESTRICTED FUNDS (CONTINUED)

	£000	2007 £000	2006 £000
CAPITAL RESERVE FUND (DONATED ASSETS)			
Balance as at 1 April		11,017	10,396
Less: Depreciation for year		(234)	(229)
Add: Indexation adjustments/revaluation		256	850
Balance as at 31 March		<u>11,039</u>	<u>11,017</u>

This fund represents the net book value of vested Tangible Assets (Note 6) funded by donations.

CAPITALISED ACQUISITIONS FUND

Balance as at 1 April		4,627	3,579
Acquisitions funded from restricted donations received during the year		615	594
Transfers from:			
Collections Designated Fund	352		281
Collections Purchase Fund	44		–
Grants and Donations	180		116
HLF / NHMF	750		50
The Portrait Fund	50		–
Dame Helen Gardner Bequest	–		7
		<u>1,376</u>	
Balance as at 31 March		<u>6,618</u>	<u>4,627</u>

This fund represents the value of Heritage Assets funded by restricted donations and Grant-in-Aid allocated to capitalised acquisitions for Collections.

GRANTS AND DONATIONS FUND

Balance as at 1 April		556	473
Income during the year		815	882
Expenditure during the year		(468)	(683)
Transfers to:			
Capitalised Acquisitions Fund		(180)	(116)
Development Project Fund		(90)	–
Balance as at 31 March		<u>633</u>	<u>556</u>

This fund represents grants and donations given for a specified purpose.

HERITAGE LOTTERY FUND/NATIONAL HERITAGE MEMORIAL FUND

Balance as at 1 April		–	–
Income during the year		859	143
Expenditure during the year		(109)	(93)
Transfer to Capitalised Acquisitions Fund		(750)	(50)
Balance as at 31 March		<u>–</u>	<u>–</u>

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

13. RESTRICTED FUNDS (CONTINUED)

	2007	2006
	£000	£000
DAME HELEN GARDNER BEQUEST		
Balance as at 1 April	5	9
Income during the year	3	3
Transfers to Capitalised Acquisitions Fund	–	(7)
Balance as at 31 March	<u>8</u>	<u>5</u>

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

14. ANALYSIS OF NET ASSETS BETWEEN FUNDS

Fund balances at 31 March 2007 are represented by:

	Unrestricted		Restricted	Total
	Designated	General		
	£000	£000	£000	£000
Fixed Assets	7,121	–	50,432	57,553
Investments	–	38	–	38
Current Assets	2,614	1,819	1,967	6,400
Current Liabilities	–	(1,457)	(112)	(1,569)
Total Net Assets	<u>9,735</u>	<u>400</u>	<u>52,287</u>	<u>62,422</u>

15. FINANCIAL COMMITMENTS

As at 31 March 2007 the Gallery had annual commitments under non-cancellable operating leases as follows:

Operating leases which expire:	2007		2006	
	Land and buildings	Other Operating Leases	Land and buildings	Other Operating Leases
	£000	£000	£000	£000
Less than one year	–	4	–	–
Two to five years	<u>56</u>	<u>10</u>	<u>56</u>	<u>14</u>

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

16. CAPITAL COMMITMENTS

	2007	2006
	£000	£000
Capital expenditure contracted for but not provided in the accounts	200	34
Capital expenditure authorised but not contracted for	505	402

Capital expenditure contracted for but not provided relates to the costs of the Gallery's digitisation project. Capital expenditure authorised but not contracted for relates to various IT projects and plant and machinery upgrades.

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

	2007	2006
	£000	£000
Net (incoming)/outgoing resources/surplus before revaluations	1,817	891
less: Investment income	(221)	(169)
Donated acquisitions	(71)	(422)
Loss on disposal of fixed assets	-	-
Depreciation	1,377	1,294
(Increase)/Decrease in debtors	213	(397)
(Decrease)/Increase in creditors	37	368
(Decrease)/Increase in deferred income	(148)	138
(Increase)/Decrease in stocks	340	68
Net cash flow from operating activities	<u>3,344</u>	<u>1,771</u>

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

Payments to acquire tangible fixed assets	<u>(2,643)</u>	<u>(907)</u>
---	-----------------------	--------------

Management of liquid resources

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

Return on investments and servicing of finance

Interest received	219	167
Investment dividends	2	2
	<u>221</u>	<u>169</u>

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

Increase in cash in period	922	1,033
Cash flow from change in liquid resources	<u>-</u>	<u>-</u>
Movement in net funds in the period	922	1,033
Net funds at 1 April	<u>4,276</u>	<u>3,243</u>
Net funds at 31 March	<u>5,198</u>	<u>4,276</u>

d) Analysis of net funds

	1 April 2006 £000	Cash flow £000	31 March 2007 £000
Cash at bank and in hand	<u>4,276</u>	<u>922</u>	<u>5,198</u>
Net funds	<u>4,276</u>	<u>922</u>	<u>5,198</u>

18. ANALYSIS OF FUNDRAISING TRADING ACTIVITIES

	2007	2006
	£000	£000
<u>Retail, Publications and Picture Library</u>		
Turnover for the year	2,506	2,261
Less: Cost of goods sold	(1,163)	(1,010)
Less: Staff costs	(803)	(802)
Less: Direct overheads	(79)	(80)
	<u>461</u>	<u>369</u>
<u>Gallery hire</u>		
Turnover for the year	309	346
Less: Staff costs	(58)	(96)
Less: Direct overheads	(56)	(55)
	<u>195</u>	<u>195</u>
<u>Corporate members</u>		
Turnover for the year	149	141
Less: Staff costs	(29)	(22)
Less: Direct overheads	(51)	(50)
	<u>69</u>	<u>69</u>
<u>Catering franchise</u>		
Total franchise income for the year	<u>263</u>	<u>227</u>
	<u>263</u>	<u>227</u>
<u>Summary of activities for generating funds</u>		
Total turnover	3,227	2,975
Total cost of goods sold	(1,163)	(1,010)
Total staff costs	(890)	(920)
Total direct overheads	(186)	(185)
Total direct costs	(2,239)	(2,115)
Less allocated support costs	(638)	(555)
Net funds generated	<u>350</u>	<u>305</u>

19. CONTINGENT LIABILITIES

During the year, the Gallery set up a trading subsidiary, National Portrait Gallery Company Limited. Following negotiations with HM Revenue and Customs, on 1 April 2007, the Gallery transferred its retail, venue hire and catering franchise to the company to mitigate the potential for tax liabilities in respect of non-primary purpose trading. At the time that these accounts have been prepared, HMRC has not notified us of any tax due or, if due, the extent of any potential liability.

20. POST BALANCE SHEET EVENTS

The Gallery's incorporated subsidiary, National Portrait Gallery Company Limited, started trading on 1 April 2007. The financial statements were authorised for issue by the Accounting Officer on 20 July 2007. There were no other significant post balance sheet events.

21. RELATED PARTY TRANSACTIONS

The National Portrait Gallery's sponsor, the Department for Culture, Media and Sport, is regarded as a related party. During the year, the Gallery has had various material transactions (greater than £500) with the Department and with other entities for which the Department is regarded as the parent Department as follows:

	Amount purchased £000	Amount sold £000	Donations/ grants awarded £000
<u>Related Party</u>			
Arts Council of England	12	8	6
British Library	2	2	–
Imperial War Museum	5	–	–
National Museum of Liverpool	–	5	–
National Gallery	225	–	–
National Heritage Memorial Fund	–	–	750
Tate Gallery	10	3	–
Victoria & Albert Museum	1	–	–
Visit Britain	1	–	–
National Maritime Museum	–	1	–
Heritage Lottery Fund	–	–	109

Other Related Party Transactions

Trustees: Sir Christopher Ondaatje pledged £1,000,000 to The Portrait Fund and donated to the Gallery a bronze bust of himself by Sarath Chandrajeeva. Amelia Fawcett pledged £50,000 to the Fund and paid £8,000 for tickets to the *David Hockney Portraits* dinner while David Ross paid £1,600 for tickets to the same dinner. The Marchioness of Douro and Amelia Fawcett were Patrons during the year (paying the subscription of £120 and giving £900 and £880 additional donations respectively) while Flora Fraser paid £1,000 for Patronage as a gift. Professor Sara Selwood was an Associate (£80 subscription and £170 donation).

Staff: Until September 2006, the husband of Catherine MacLeod (a member of the Senior Management Team) was Associate Director for Academic Activities at the Paul Mellon Centre, which supported the Gallery with conference grants during 2006/07. Jacob Simon, Chief Curator, donated an engraved portrait of the printseller, Alexander Beugo, 1814, during the year.

Other: A portrait by the wife of David Lammy, MP, Minister for Culture, was chosen to be shown at the *2006 BP Portrait Award*; however the judges made their decision without knowing the identity of the artists.

Published by TSO (The Stationery Office) and available from:

Online

www.tsoshop.co.uk

Mail, Telephone, Fax & E-mail

TSO

PO Box 29, Norwich, NR3 1GN

Telephone orders/General enquiries: 0870 600 5522

Order through the Parliamentary Hotline Lo-call 0845 7 023474

Fax orders: 0870 600 5533

E-mail: customer.services@tso.co.uk

Textphone 0870 240 3701

TSO Shops

16 Arthur Street, Belfast BT1 4GD

028 9023 8451 Fax 028 9023 5401

71 Lothian Road, Edinburgh EH3 9AZ

0870 606 5566 Fax 0870 606 5588

The Parliamentary Bookshop

12 Bridge Street, Parliament Square,

London SW1A 2JX

TSO@Blackwell and other Accredited Agents

ISBN 978-0-10-295071-7



9 780102 950717